

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Ameren Illinois Company d/b/a	:	
Ameren Illinois	:	
	:	
Proposed general increase in gas delivery	:	15-0142
service rates and revisions to other terms	:	
and conditions of service. (tariffs filed	:	
January 23, 2015).	:	

PROPOSED ORDER

November 3, 2015

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By the Commission:

I. INTRODUCTION

A. Procedural History

On January 23, 2015, Ameren Illinois Company d/b/a Ameren Illinois (“Ameren” or “AIC” or “Company”) filed its 6th Revised Sheet Nos. 11.001 & 11.002, 6th Revised Sheet Nos. 12, 12.001, & 12.002, 6th Revised Sheet Nos. 13, 13.001, & 13.002, 6th Revised Sheet No. 14.001, 8th Revised Sheet No. 14.002, 7th Revised Sheet No. 14.003, 6th Revised Sheet No. 14.004, 5th Revised Sheet No. 14.006, 8th Revised Sheet No. 15, 6th Revised Sheet No. 15.001, 3rd Revised Sheet No. 15.004, 6th Revised Sheet No. 24.001, 6th Revised Sheet No. 26, 5th Revised Sheet No. 26.001, Original Sheet Nos. 46, 46.001, 46.002, 46.003, & 46.004 (“Proposed Tariffs”), in which it proposed a general increase in gas delivery service rates and revisions to other terms and conditions of service, to be effective March 9, 2015.

Simultaneous with, and in support of, its filing of the Proposed Tariffs, AIC filed testimony, exhibits and schedules to meet the requirements of 83 Ill. Adm. Code 285, 286 and 287 (“Parts 285, 286 and 287”).

On February 25, 2015, the Illinois Commerce Commission (the “Commission”) entered a Suspension Order suspending the Proposed Tariffs for gas service until and including June 21, 2015. Upon suspension, AIC’s gas filings became identified as Docket No. 15-0142. On June 3, 2015, the Commission entered a Resuspension Order renewing the suspension of the Proposed Tariffs until and including December 21, 2015.

As required by law, notice of the filing of the proposed rate increases was posted in each of AIC’s business offices and was published twice in newspapers of general circulation within each of AIC’s service areas.

Pursuant to due notice, a prehearing conference was held on March 18, 2015 before a duly authorized Administrative Law Judge (“ALJ”) of the Commission at its offices in Springfield, Illinois. Thereafter, a status hearing was held before duly authorized ALJs

of the Commission, at its offices in Chicago, Illinois, on August 21, 2015. The following Petitions for Leave to Intervene were granted by the ALJs: Citizens Utility Board (“CUB”); the Retail Energy Supply Association (“RESA”); Archer-Daniels Midland as one of Illinois Industrial Energy Consumers (“IIEC”); and the Illinois Competitive Energy Association (“ICEA”). The People of the State of Illinois *ex rel.* Lisa Madigan, Attorney General of the State of Illinois (“AG”) filed an appearance and participated in the case as a party of right. The evidentiary hearing was held on August 24, 2015, at the Commission’s offices in Chicago, Illinois. Testimony and exhibits filed by the parties were admitted into evidence, and are identified on the Commission’s e-Docket. The record was marked “Heard and Taken” at the conclusion of the August 24, 2015 evidentiary hearing.

Initial and reply briefs were filed by AIC, Staff, the AG, ICEA/RESA, CUB/IIEC jointly for certain issues, IIEC alone for rate design issues, and CUB alone.

The ALJs’ Proposed Order was served on November 3, 2015. Statutorily, this docket must conclude by December 21, 2015.

B. Nature of AIC’s Operations

AIC is a combination gas and electric public utility whose service area is located in central and southern Illinois and consists of the former service territories of its three predecessor companies - AmerenCILCO, AmerenCIPS, and AmerenIP. AIC was formed on October 1, 2010, when AmerenCILCO and AmerenIP were merged into AmerenCIPS. Concurrent with the merger, the newly formed company changed its name to Ameren Illinois Company and began doing business as Ameren Illinois.

AIC provides gas delivery service to approximately 840,000 natural gas customers. AIC has established three separate rate zones that correspond to the former service territories. Rate Zone I, formerly AmerenCIPS, currently serves approximately 190,000 natural gas customers in Illinois. Rate Zone I’s service territory includes, among others, the cities of Quincy, Mattoon, Carbondale, and Marion. Rate Zone II, formerly AmerenCILCO, currently serves approximately 213,000 natural gas customers over 4,500 square miles in central and east central Illinois. Rate Zone II’s service territory includes, among others, the cities of Peoria, East Peoria, Pekin, Washington, Lincoln, Morton, Tuscola and Springfield. Rate Zone III, formerly AmerenIP, currently serves approximately 427,000 natural gas customers across 15,000 square miles of central, east central and southern Illinois. As the largest of the rate zones, it accounts for 8,400 distribution miles of gas main and serves major communities such as Decatur, Belleville, Champaign-Urbana, Centralia, East St. Louis, Galesburg, Granite City, Hillsboro, Jacksonville, LaSalle, Maryville and Mt. Vernon.

C. Test Year

AIC has proposed a future test year ending December 31, 2016. No party has contested the use of this test year.

II. RATE BASE

A. Resolved Issues

1. Working Capital for Gas in Storage

Staff witness Lounsberry proposed, and AIC accepted, that AIC use natural gas pricing from the July 2015 U.S. Energy Information Administration (“EIA”) Short-Term Energy Outlook to calculate its working capital allowance for natural gas in storage. In post-surrebuttal discovery (AG Cross Exhibit 6), AIC agrees that further adjustment was necessary to fully reflect the impact of the July 2015 EIA Short-Term Energy Outlook on gas stored inventory. AIC proposes adjustments to reflect the full impact for each rate zone as presented in AIC Exhibit 34.1 (Corr.), AIC Exhibit 34.2 (Corr.), and AIC Exhibit 34.3 (Corr.) which were admitted into the record when the ALJs granted AIC’s emergency motion discussed in Section II.A.8 below. The Commission finds that Staff’s proposal and the post-surrebuttal update are reasonable and are hereby adopted.

2. Gas Vehicle Plant Additions

Staff witness Lounsberry expressed concern that AIC might not make the vehicle purchases it had planned for 2015 and asked for additional information to show why an adjustment to the vehicle purchase estimates was unnecessary. AIC witness Colyer provided information regarding AIC’s vehicle purchase activity, including purchase orders and overhead expense that met the forecasted amount. Mr. Lounsberry states that this additional information resolves his concerns. The Commission finds that AIC’s forecast is reasonable and is hereby accepted.

3. Customer Advances

Customer advances for construction are typically deducted from rate base because they are received from customers, and therefore, the related investments in utility plant assets do not require funding by shareholders. AIC deducted the forecasted average of the December 31, 2015 and December 31, 2016 balances of customer advances from rate base. AG witness Effron proposes that AIC deduct the December 31, 2014 gas balance, rather than the forecasted average balance, which AIC accepts. The Commission finds that the AG’s proposal is reasonable and is hereby adopted.

4. Qualifying Infrastructure Plant Additions

AG witness Effron proposed to reduce the amount of Qualifying Infrastructure Plant (“QIP”) additions to plant in service, based on his concern that AIC might over-recover its revenue requirement if its addition of QIP placed in-service in 2015 fell short of its forecast. AIC witness Getz responded by showing that AIC’s QIP plant additions were only 7% below the forecasted amount, and AIC witness Jones clarified that AIC’s Rider QIP provides for a positive QIP surcharge if less than the forecasted amount of QIP is placed in service, and a negative surcharge if more than the forecasted amount is placed in base rates, so that there is no possibility of over-recovery. Mr. Effron withdraws his proposed adjustment based on the information provided by Mr. Getz and Mr. Jones. The Commission finds that AIC’s proposed QIP additions are reasonable and are hereby accepted.

5. Asset Retirement Obligations

AIC's rate base originally included a portion of asset retirement obligations ("AROs") associated with electric operations. The electric AROs were allocated to gas plant and included in rate base as a result of the asset separation project. Staff witness Tolsdorf proposes an adjustment to remove the electric AROs from gas rate base. AIC accepts Mr. Tolsdorf's proposal, subject to some corrections to remove derivative impacts of the AROs. Mr. Tolsdorf agrees with AIC's adjustments. The Commission finds Staff's proposal, subject to AIC's adjustments, to be reasonable, and it is hereby adopted.

6. Original Cost Determination

Staff witness Tolsdorf proposes to adjust the original cost of plant in each rate zone to reflect AIC's agreement to remove electric AROs from gas plant. AIC witness Stafford explains that this adjustment is unnecessary because AIC's original cost determination includes only gas plant, and not electric utility plant allocated to gas. Mr. Stafford further explains that the electric AROs were removed from the calculation of original plant costs in AIC's ongoing electric formula rate case. No party contests this explanation. The Commission finds AIC's original cost determination to be reasonable and it is hereby approved. The specific original cost findings are included herein in Section X. below.

7. Hillsboro Used and Useful

AIC witness Colyer testified that an adjustment to reduce utility plant in service related to the Hillsboro Gas Storage field is no longer appropriate, in light of data showing that AIC is prudently operating the field at a capacity that does not warrant the adjustment. Mr. Colyer recommends that the Hillsboro Gas Storage field be found 100% used and useful. Staff witness Lounsberry agrees that the Hillsboro facility is 100% used and useful, and that an adjustment to reduce plant in service is no longer necessary. Given that no other party challenges this issue, the Commission finds the issue to be resolved.

8. ADIT

On September 24, 2015, AIC filed a Verified Emergency Motion to Reopen the Record for the Limited Purpose of Admitting Late-Filed Surrebuttal Revenue Requirement Exhibits Instantly. Staff was the only party to respond to AIC's motion. Staff stated that it did not object to two of the proposed accumulated deferred income tax ("ADIT") corrections, but that it was not able to form an opinion on the other two ADIT corrections on such short notice. On October 7, 2015, the ALJs granted AIC's motion.

The revenue requirement approved in this Order and reflected in the schedules attached hereto reflect the changes to ADIT requested by the Company in its Motion. The Commission notes that the motion appears to contain a new methodology for computing ADIT. Because no party objected and the numbers appear reasonable, AIC's ADIT is approved, but the methodology is only accepted for purposes of this proceeding and is not indicative of Commission approval.

9. Gas-Only Employee Headcount/Vacancy Costs

This issue is addressed in Section III.A.9 below.

B. Contested Issues

1. Accounts Payable for Gas Stored Underground

a. AIC Position

AIC opposes AG witness Effron's proposed adjustment to the accounts payable percentage applied to the amount of gas in storage included in rate base. AIC asserts that Mr. Effron's adjustment would decrease the rate base amount for gas in storage, but the adjustment is premised on a failure to recognize the distinction between goods and services, and a misunderstanding of the components of the lead-lag study.

AIC explains that gas stored underground is a component of the Company's materials and supplies balance, which is included in rate base. Thus, gas stored underground is a component of test year rate base. All components of materials and supplies are reduced by an "accounts payable percentage." This reduction reflects the fact that, at any point in time, the Company will be holding a portion of its inventory for which it has not yet made payment to its suppliers. In other words, AIC notes, the accounts payable percentage represents the portion of inventory that should be excluded from rate base because the Company has not invested in (i.e., paid for) it yet. AIC states that it has removed an accounts payable percentage from the total gas stored underground included in rate base. This calculation of the accounts payable percentage is the crux of the dispute with Mr. Effron.

Because the accounts payable percentage represents AIC's payment cash flows, AIC asserts that the Company determines the future test year accounts payable percentage by reference to the lead-lag study. AIC states that the lead-lag study analyzes the timing of cash receipts and cash outflows to develop cash working capital.

AIC elaborates that there are two primary components of a lead-lag study: revenue lags and expense leads. The revenue lag represents the total elapsed time between when the Company delivers gas to its customers and when it receives payment from them. During the revenue lag, the Company has possession of neither the gas nor the cash payment for it. On the other hand, AIC notes, the expense lead represents the total elapsed time between when a good or service is provided to the Company and when the Company pays for that good or service. Typically, AIC states that it receives a good or service before it pays for it. During the expense lead time, then, the Company has possession of both the good or service provided by the supplier, and the cash it will eventually use to pay the supplier for that good or service. AIC points out that the revenue lag is compared against the expense lead to determine the Company's cash working capital requirement.

The expense lead is itself divided into three components: the service lead, the payment lead, and, not relevant here, the bank float lead. The following equation represents the calculation of the expense lead:

$$\text{expense lead} = \text{service lead} + \text{payment lead} + \text{bank float lead}$$

AIC explains that each component of the expense lead represents a distinct period of time. The service lead represents the period of time during which a service is in the process of being provided to the Company. During the service lead, the service is partially

complete. For example, AIC states, a service lead is applied to payroll expense to reflect the fact that employees' services are provided to the Company over a two-week period between paychecks. Service leads apply only to services and do not apply to goods, because, unlike services, goods exist in binary states—a good has either been delivered to the Company, or has not been delivered. AIC states that there is no period of time where a good is in the process of being provided to the Company. The service lead applicable to goods is therefore zero.

Second, the payment lead represents the period of time between the Company's receipt of a good or service and the time the Company pays its supplier for that good or service. AIC states that the payment lead begins on the date that the Company takes possession of a good, or on the date a service is complete. Therefore, the payment lead does not overlap with the service lead.

AIC states that its purchases of gas fall into two categories: the gas is either "flowing gas" or "gas stored underground." Flowing gas is the portion of purchased gas that runs through AIC's pipes directly to its customers. Gas stored underground, however, is purchased from a supplier and then injected into underground storage fields for use at a later time. Typically, according to AIC, the Company injects gas for storage during summer months when gas prices are low, and extracts stored gas during winter months when suppliers' prices are higher.

AIC explains that it applied one expense lead applicable to flowing gas, and a different expense lead to gas stored underground. AIC's expense lead for flowing gas included a service lead of 15.2 days, while the expense lead for gas stored underground includes a service lead equal to zero.

AIC states that it includes a service lead in the calculation of the expense lead applicable to flowing gas because AIC receives the service of flowing gas ratably over the course of each month, as gas flows through AIC's pipes every day. AIC explains that, since the gas flows through AIC's pipes each day, there is no distinct point in time at which the flowing gas AIC receives during a month can be considered fully delivered. In this way, AIC explains that flowing gas is akin to other services AIC receives over a period of time, such as the services of its employees. AIC receives those services ratably during each pay period, and there is not a distinct point in time at which the service an employee provides to AIC can be considered complete.

AIC explains that the purpose of a service lead is to account for this phenomenon of ratable delivery of services over time, and that service leads are typically calculated at the midpoint of the delivery period. For flowing gas, AIC used a 15.2-day service lead, calculated as the midpoint of the monthly period over which flowing gas is provided to the Company.

AIC notes that AG witness Effron recognized "[t]he delivery of the gas is a service, but the gas itself is a commodity, that is to say, a good." AG Ex. 4.0 at 4. Because gas stored underground is more accurately characterized as a good than a service, AIC argues, no service lead should be—or needs to be—applied to it. AIC states that a service lead of zero days for gas in storage is appropriate because AIC does not receive gas for storage ratably over the course of a month. Instead, AIC injects gas into its

storage fields at a particular point in time. Thus, there is no period over which the gas is being ratably delivered to the Company. Therefore, AIC argues, the AG's proposal to add a service lead where it is not applicable should be rejected.

Although Mr. Effron acknowledged the distinction between the service of gas delivery and the commodity of the gas itself, AIC states that he did not acknowledge the implication of this distinction. He instead argued that, because AIC did not identify "any distinction between the time that the Company receives the gas and when it pays for the gas based on whether the gas is flowing or gas in storage," a service lead should apply to both flowing gas and gas in storage. AIC avers that this argument reveals a fundamental misunderstanding of the service lead concept.

AIC concedes that it is true that there is no distinction between gas in storage and flowing gas with respect to the time when AIC receives and pays for the gas. But the Company argues this period of time between receipt and payment is accounted for in the payment lead, not the service lead. As stated, the payment lead represents the period of time between when AIC receives a good and when it pays for the good. AIC argues that its calculation of the accounts payable percentage for gas in storage already includes the payment lead, and that Mr. Effron's stated proposal is to add a service lead to that percentage. According to AIC, this would be a mistake, because the service lead addresses the period of time during which a service is being provided, not the period of time between when "the Company receives gas and when it pays for gas," as stated by Mr. Effron.

According to AIC, this misunderstanding is pervasive in Mr. Effron's testimony on this issue, namely that he mixed the components of the lead-lag study and misstated their distinct purposes. AIC points out that Mr. Effron's Direct Testimony stated that the "service lead ... is a component of the total lag in revenues." AG Ex. 1.0 at 10. But AIC argues that this is not true: the service lead is a component of expense lead, it has nothing to do with the revenue lag. Similarly, AIC notes, Mr. Effron stated that the Company had removed "the service lead from the total purchased gas payment lead." *Id.* AIC states that this is also untrue: the service lead and payment lead are each components of the expense lead, and while AIC removed the service lead from the expense lead, it retained the payment lead.

AIC notes that Mr. Effron dismissed AIC's explanation of the definitions of service lead, payment lead, and expense lead as merely "an exercise in semantics." AG Ex. 4.0 at 4. However, AIC insists that the components of the lead-lag study are not merely semantics—they are well understood and well defined in the industry, and they underlie every cash working capital analysis. Here, AIC states, these terms are crucial to the proper recognition that gas in storage is a good, not a service. AIC contends that the confusion in terms undermines the credibility of Mr. Effron's proposal, and the arguments of the AG and CUB/IIEC. Thus, AIC claims that these parties have failed to articulate a reasoned basis for their proposal.

Leaving aside the parties' inexact discussion of the issue, AIC states that one thing is clear: neither the AG nor CUB/IIEC has addressed AIC's fundamental point on this issue. AIC contends that the only reason to apply a service lead to gas stored underground is if AIC fills its storage fields ratably over the course of each month. But,

AIC explains, it does not fill its storage fields ratably, and neither the AG nor CUB/IIEC has argued that it does. Instead, AIC notes, the parties' arguments focus on the invoices and payment dates, rather than the method or timing of injections into storage. Yet their proposal is to require that a service lead be applied to gas in storage. Accordingly, AIC argues, the parties' discussion provides no support for the adjustment they propose.

b. AG Position

AG witness Effron proposed an adjustment to the accounts payable related to gas stored underground. The AG states that those accounts payable are based on the lead for purchased gas expense as shown on Schedule B-8, with the so-called "service lead" component of the total lead eliminated. AG Ex. 1.0 at 9. According to Mr. Effron's testimony, AIC starts with a payment lead for purchased gas expense of 38.62 days on its Schedule B-8, and then eliminates the service lead of 15.2 days, resulting in a net lead of 23.42 days, or 6.42% of a year. Mr. Effron explained that AIC calculates its accounts payable related to gas stored underground on its Schedule B-8.1 based on this 6.42% figure. AG Ex. 1.0 at 9-10.

The AG notes that the Company attempted to defend its removal of the service lead from the total lead by stating in a discovery response that "[u]nlike purchased gas costs, Gas Stored Underground is not paid for or withdrawn on a monthly basis. As such, it is inappropriate to include a service lead associated with the midpoint of a given month." The AG further notes that addressing a discovery request asking AIC to describe how gas stored underground is paid for and how that differs from the payment method for flowing gas, AIC stated that the payment for gas stored underground "is dependent on timing of gas injections into gas storage fields and receipt of invoices requesting payment," but did not clearly distinguish between the two payment methods. *Id.* at 11. But the AG observes that the Company ultimately acknowledged that invoices for purchased gas "cover all gas purchases whether the gas flows through to customers or is injected into storage." *Id.* at 10.

The AG asserts that since there is no distinction between AIC's terms of payment for purchased gas delivered directly to customers versus the invoices for purchased gas injected into storage, Mr. Effron recommended using the same expense lead for both types of purchased gas. Thus, he recommended using an accounts payable percentage of 10.58% – the same as that used for purchased gas delivered to customers – for purchased gas stored underground. *Id.* at 11-12.

The AG notes that AIC witness Stafford attempted to defend the Company's approach based on the premise that flowing gas delivered to customers is a service, "since the gas flows through AIC's system to its customers continuously over the course of the month," while "[g]as stored underground is considered a good, because AIC purchases the gas and stores it for future use." AIC Ex. 17.0 at 15. The AG asserts, however, that as Mr. Effron stated in his Rebuttal Testimony, there is no "definition of the term 'service' whereby gas purchased for delivery to customers is a service." Mr. Effron went on to note that "the delivery of the gas is a service, but the gas itself is a commodity, that is to say, a good." AG Ex. 4.0 at 4. The AG argues that as both gas delivered to customers and gas stored underground are goods, the same lead should apply to both types of purchased gas – whether delivered to customers or stored underground. The

AG asserts that as Mr. Stafford admitted in Rebuttal Testimony, “[t]he payment lead is the same for all purchased gas.” AIC Ex. 17.0 at 17.

The AG clarifies that Mr. Effron’s analysis was updated in AG Exhibit 4.1 REV. to reflect AIC’s acceptance of Staff’s recommendation to use data from the July 2015 EIA Short-Term Energy Outlook as the basis for its claim for gas stored underground.

The AG concludes that since there is no distinction between the modes of payment and thus the appropriate expense leads for gas delivered to customers and gas stored underground, the Commission should adopt Mr. Effron’s proposal to use an accounts payable percentage of 10.58% for AIC’s materials and supplies for gas stored underground. The proposal entails a value of \$7.533 million for the related accounts payable, which is an adjustment of \$2.965 million from AIC’s proposed rate base.

c. CUB/IIEC Position

CUB/IIEC note that AG witness Effron proposed to restore the service lead AIC eliminated in calculating the accounts payable to gas stored underground, which is a component of general materials and supplies. AG Ex. 1.0 at 9. CUB/IIEC assert that the service lead accounts for 15.2 days of 38.62 days total lag for purchased gas expense. *Id.* at 10. CUB/IIEC point out that Mr. Effron explained, the “service lead” of 15.2 days is a component of the total lag in revenues that the Company collects from customers, that component being the average lag from the time that service is provided until the customer’s meter is read. AG Ex. 1.0 at 10. CUB/IIEC agree with Mr. Effron that there does not appear to be any distinction between storage and flowing gas regarding the transaction of purchasing and paying for gas, so there should not be any adjustment to the expense lead used to calculate the accounts payable offset to stored gas in the rate base. The only distinction between the two identified by AIC is that payment for stored gas is paid upon injection, while flowing gas is paid for on a monthly basis. *Id.* (citing response to AG Data Request 4.02). According to CUB/IIEC, this is a distinction in search of a difference, since the Company acknowledged that gas invoices cover all gas purchases, whether the gas flows through to customers or is injected into storage and that the invoices do not distinguish between gas that flows to customers or into storage. AG Ex. 1.0 at 11 (quoting from response to AG Data Request 6.03).

CUB/IIEC observe that AIC witness Stafford took the position that it is appropriate to include the 15.2 day service lead component in the expense lead for flowing gas but not in the lead for gas stored underground because flowing gas is a “service” while gas stored underground is a “good.” AIC Ex. 17.0 at 15-16. CUB/IIEC state this argument is purely a semantic maneuver in an attempt to draw a distinction where none exists, as Mr. Stafford conceded, both flowing gas and gas stored underground serve customer demand for gas. *Id.* at 14. CUB/IIEC agree with Mr. Effron that the delivery of gas to customers is a “service”, while the gas itself is a commodity – or “good”. AG Ex. 4.0 at 4. As Mr. Effron testified, Mr. Stafford did not identify any distinction between the time that the Company receives the gas and when it pays for the gas based on whether the gas is flowing gas or gas in storage. AG Ex. 4.0 at 4. CUB/IIEC argue that if the payment terms in relation to receipt are the same, then the total lead of 38.62 days applicable to flowing gas is also applicable to gas in storage. *Id.*

For the reasons noted above, CUB/IIEC support Mr. Effron's adjustment to accounts payable as reflected in his Schedule DJE B-2. AG Ex. 4.1 at 8.

d. Commission Analysis and Conclusion

The Commission declines to adopt the AG's proposal to add the service lead eliminated by AIC in calculating the accounts payable percentage applied to the amount of gas in storage included in rate base. The Commission agrees with AIC that the purpose of considering the service lead in a lead-lag study is to account for the fact that the Company receives delivery of services ratably over a period of time. AIC has established that it receives flowing gas ratably over the course of each month, but injects gas into storage intermittently and at distinct points in time. The Company explained that it considers flowing gas delivered to customers to be a service primarily because the gas flows through the Company's system to its customers continuously over the course of a month. It considers gas stored underground, however, to be a good since it is received at a distinct point in time. The Company reasons that it is therefore inappropriate to include a service lead associated with the midpoint of a given month to gas stored underground. The Commission notes that neither the AG nor CUB/IIEC challenged the method or timing of the gas injections into storage, the payment lead applied to either flowing gas or gas stored underground, or AIC's assertion that service leads apply only to services and do not apply to goods.

Additionally, the Commission notes that it agrees with AIC that the components of the lead-lag study i.e. service lead, payment lead, and expense lead are not merely semantics. As stated by AIC, these components are well defined terms commonly used in cash working capital analysis. The Commission observes that the AG's and CUB/IIEC's arguments in support of the AG's proposal rely heavily on assertions concerning invoices and payment dates which appear to be related to the payment lead component of the expense lead, which AIC retained, rather than the service lead. For these reasons, the Commission adopts AIC's proposed accounts payable percentage for gas in storage.

2. Non-Union Salaries and Wages

This issue is addressed in Section III.B.2 below.

3. Incentive Compensation Costs

This issue is addressed in Section III.B.3 below.

4. Qualified Pension and Other Post-Employment Benefit Costs

This issue is addressed in Section III.B.4 below.

5. Gasoline and Diesel Fuel Costs

This issue is addressed in Section III.B.6 below.

C. Approved Rate Bases

Upon giving effect to the determinations above, the Commission finds that the rate bases for AIC are hereby approved as shown in the rate base schedules contained in the Appendices to this Order.

III. OPERATING REVENUE AND EXPENSES

A. Resolved Issues

1. Ameren Services Company Test Year Charges

This item is addressed in Section IX.A.1 below.

2. Transmission Lines Assessment and Inspection Expense

AG witness Coppola proposed an adjustment to reduce the expense amount associated with AIC's assessment and inspection of gas transmission lines. Mr. Coppola withdraws his proposal in Rebuttal Testimony, stating that AIC has provided additional information in its Rebuttal Testimony and in response to data requests. The Commission finds the expense amount proposed by AIC to be reasonable and is hereby adopted.

3. Rate Case Expense

Staff witness McNally proposed a reduction to AIC's rate case expense. Thereafter, AIC, Staff, CUB and IIEC entered a Stipulation that resolved several matters, including rate case expense. Pursuant to the Stipulation, Staff agrees to withdraw Mr. McNally's proposed adjustment, and AIC agrees to reduce its proposed rate case expense to reflect the fact that certain costs will be avoided as a result of the Stipulation. The resulting proposed level of rate case expense is \$2,392,000. Staff also recommends that the Commission include specific language in its Order pursuant to Section 9-229 of the Act expressly addressing the justness and reasonableness of the attorney and expert compensation expended by AIC to prepare and litigate this rate case, which reflects this level of rate case expense. AIC agrees with Staff's recommended language. No other party contests the Stipulation's provisions, including the stipulated amount of rate case expense, and does not otherwise contest rate case expense.

The Commission finds that the amount of rate case expense as stipulated, and uncontested by other parties, is reasonable and should be approved. The Commission has considered the costs expended by the Company to compensate attorneys and technical experts to prepare and litigate this rate case proceeding and assesses that such costs in the total amount of \$2,392,000, which is \$1,196,000 amortized over 2 years, or \$399,000 per rate zone for the test year, are just and reasonable pursuant to Section 9-229 of the Act. 220 ILCS 5/9-229.

4. Payroll Taxes

Payroll taxes include Social Security tax and Medicare tax. AIC removed the Medicare portion of payroll taxes associated with incentive compensation and the performance share unit program ("PSUP"), using the 1.45% tax rate. Staff witness Ebrey proposes to remove the portion of payroll taxes associated with Social Security as well, and calculates her adjustment using the 6.2% Social Security tax rate. AIC agrees with Ms. Ebrey's proposal, subject to a correction in the calculation of the adjustment to reflect the fact that the 6.2% Social Security tax rate is subject to an earnings cap of \$118,500, and amounts of incentive and PSUP compensation above the earnings cap are not subject to Social Security tax. Ms. Ebrey agrees with AIC's revised calculation. The

Commission finds that Staff's proposed adjustment, subject to AIC's corrected calculation, is reasonable and is hereby adopted.

5. Lobbying Expense

Staff witness Ebrey proposes to increase the amount of lobbying expense removed from base rates by applying the non-union wage escalation factor, rather than the 2% escalation factor AIC proposed, and removing related payroll taxes. AIC accepts Ms. Ebrey's proposal. The Commission finds that Staff's proposal is reasonable and is hereby accepted.

6. Uncollectible Expense/Gross Revenue Conversion Factors

AIC originally proposed to calculate uncollectibles expense based on twelve months of actual data, reflecting calendar year 2013. Staff witness Ebrey proposes that the expense should instead be calculated using a three-year average of net write-offs of accounts receivable. Ms. Ebrey also proposes a related adjustment to the Gross Revenue Conversion Factor. AIC accepts Ms. Ebrey's proposals. The Commission finds Staff's proposals to be reasonable and they are hereby adopted.

7. Rental Revenues

Staff witness Ebrey proposed an adjustment to increase the amount of rental revenues for software systems that are shared between AIC and Ameren Missouri. Ms. Ebrey's proposal was based on information AIC provided in response to discovery, and it was subsequently determined that AIC's responses were incorrect. AIC corrected the information, noting that the software systems are allocated to AIC, so that only AIC's share of the expenses was included in AIC's proposed revenue requirement. Based on the corrected information, Ms. Ebrey withdraws the proposed adjustment in her Rebuttal Testimony. The Commission finds that the rental revenues for software systems are reasonable, and are hereby approved.

8. Asset Retirement Obligations

Staff proposes to remove electric AROs allocated to AIC's gas utility and included in AIC's gas rate base. Staff Ex. 1.0 at 6-7. The Company agrees with this adjustment in theory and proposes corrections to Staff's adjustment to reflect some additional derivative impacts due to the removal of the AROs. AIC Ex. 17.0 at 4. Staff agrees with the derivative adjustments as calculated by the Company. Staff Ex. 7.0 at 3. This issue is uncontested and addressed in Section II.A.5 above.

9. Gas-Only Employee Headcount/Vacancy Costs

AG witness Coppola proposed to deduct "vacancy" costs from test year expenses—negative costs that the Company included in its 2016 budget to account for employee positions that would remain unfilled. AIC responded by stating that it has already netted the negative vacancy costs against its test year expenses. Staff witness Lounsberry also expressed concern about AIC's ability to increase its gas-only headcount in the timeframe and manner proposed by the Company. AIC witnesses Colyer and Getz provided more up-to-date information regarding the Company's gas-only headcount. Mr. Lounsberry states that this additional information resolves his concerns. Additionally, the

AG withdraws its proposed adjustment based on its review of AIC's arguments in its Initial Brief and states that it is satisfied that the vacancies at issue have been reflected in the test year. The Commission finds that AIC's proposed gas-only employee headcount is reasonable and is hereby accepted.

B. Contested Issues

1. Charitable Contributions

a. AIC Position

AIC proposes to recover approximately \$1.04 million in forecasted charitable contributions—the same amount of gas-allocated contributions that AIC is committed to make during the 2016 test year. This amount includes a donation (\$398,000) to local organizations that administer funds for Illinois' Low Income Home Energy Assistance Program ("LIHEAP"), a program whose funding for low-income customers remains at risk. According to AIC, the Company's requested contributions will fund charitable causes and are reasonable in amount. Also, AIC states that the record shows that the amount requested is a justifiable and reliable estimate of the contributions that AIC will make in 2016. Staff and the AG oppose AIC's request, arguing that recovery should be based on a three-year average of actual contributions (2012-2014) escalated by 2% for 2015 and 2016, an adjustment that would limit AIC's recovery to only 36.3% of its request, or \$378,000.

The Company states that its planned funding of charitable and public welfare causes in 2016 will have a meaningful impact on AIC's customers, including its low-income customers, and is an appropriate amount of expense to recover in the Company's gas rates. No party disputes that the Company's requested contributions will fund charitable causes in its service territory to the benefit of its customers, including its low-income customers. According to AIC, the debate is whether the forecasted contributions are a reasonable amount and a reliable, justifiable estimate of the contributions that AIC will make in 2016.

Section 9-227 of the Act provides that that the charitable and public welfare donations recovered in rates must be "reasonable in amount." 220 ILCS 5/9-227. The Company points to the evidence of contributions recovered in rates by other large Illinois electric and gas utilities as a benchmark of reasonableness. The record contains the per-customer contributions that Commonwealth Edison Company ("ComEd") is recovering in rates - \$1.90. Ameren Ex. 33.1. It also contains the per-customer contributions that The Peoples Gas Light and Coke Company ("Peoples") is recovering in rates - \$1.39. *Id.* Those amounts are both higher than the per-customer contributions that AIC is requesting to recover (\$1.28) in this proceeding, and considerably higher than the per-customer amounts that the Company is currently recovering in its electric (\$0.49) and gas (\$0.39) rates.

AIC notes that it has repeatedly stressed the importance of giving back to the communities where our employees live and work. AIC states that funding local charitable organizations benefits customers within its service territory. Contributions to the Red Cross, for example, are used to help residents recover from natural disasters. In the past four electric formula rate cases (based on 2010-2013 expenses), AIC has recovered close

to 100% of the actual charitable contributions included in the revenue requirement. And in the pending formula rate case (based on 2014 expenses), AIC is poised to recover close to 100% of its requested contribution expense. But AIC states that it wants to contribute more to charitable causes in its service territory, and it believes that it has the resources to step up funding. To that end, AIC notes that its senior leadership has authorized an increase in contributions in 2015—an increase that the Company is funding successfully and that no party is questioning.

The Company's test year request for contributions includes funds that will be provided to local LIHEAP organizations in AIC's service territory. LIHEAP is a program that provides assistance to low-income households to keep current on energy bills, particularly during peak winter heating and summer cooling months. Among other things, LIHEAP organizations administer the Percentage Income Payment Plan ("PIPP"), through which an eligible client pays a percentage of their income, receives a monthly benefit towards their utility bill, and receives a reduction in overdue payments for every on-time payment they make by the bill due date. As AIC states, for many residents—including the tens of thousands of Illinois households at or near the poverty level—LIHEAP assistance can be the difference between having essential utility service and being disconnected.

As noted by AIC, the State's current financial crisis, however, has jeopardized the level of available funds for LIHEAP organizations. Already, more than 60,000 Illinois residents have been dropped from PIPP, as the State's leaders grapple with passing a budget. To help bridge gaps in funding, AIC has proposed to donate \$1.0 million in January 2016 to a group of local LIHEAP organizations. AIC states that the funds will be earmarked for the provision of home energy financial assistance of the type that LIHEAP agencies typically provide. Although this contribution will not cover the potential shortfall in LIHEAP funding, AIC notes, it would still have a meaningful impact on AIC's low-income customers.

Staff, the AG, and now CUB/IIEC argue that AIC's "actual charitable giving should be the benchmark by which the Commission sets a reasonable level of contribution to be collected from ratepayers." But all three parties, as well as the Staff and AG witnesses, ignore or give no weight to the higher "actual charitable giving" occurring in 2015. The Company states that it has submitted other evidence to justify the reliability of its forecast, including its higher contributions prior to 2010.

Staff notes that AIC spent less on charitable contributions than it recovered in rates in 2011, 2012 and 2013. The Company acknowledges that fact, but claims that fact does not prove that the Company has a history of giving far less to charity than the amount of charitable contributions expense it was allowed to recover from ratepayers. Instead, AIC notes that it spent more on contributions in 2014 than what the Commission authorized in rates in Docket No. 13-0192. And to date in 2015, the Company states that it has already surpassed that mark. Staff claims that there is not a guarantee that approving AIC's requested amount will result in more contributions finding their way to a charitable organization. But AIC maintains that more contributions are finding their way to charitable organizations. The Company states that it has shown a willingness to increase its contributions in 2015 and is dedicated to fulfilling its funding commitments in 2016. The

AG claims that AIC's past forecasts of future giving are unreliable. The Company, however, approved a contribution budget for 2015 of \$1.5 million—a target that AIC is well on its way to meeting and potentially exceeding.

In AIC's last gas rate case (Docket No. 13-0192), the Commission calculated AIC's 2014 test year contributions based on a three-year average of actual contributions (2010-2012), escalated by a 2% inflation factor for 2013 and 2014. *Ameren Ill. Co. d/b/a Ameren Ill.*, Docket No. 13-0192, Order at 61 (Dec. 18, 2013). The Commission found that this method "appears to provide a justifiable estimate of test year expenditures." *Id.* Staff and the AG have argued that the Commission should apply the same method in this proceeding. According to AIC, however, the record in this proceeding establishes that the same method does not provide a justifiable estimate of the Company's 2016 forecasted contributions; in fact, according to AIC, the record supports the Company's request, not Staff and the AG's adjusted expense.

In Docket No. 13-0192, the Commission also noted that "the averaging methodology will smooth any outliers in AIC's contribution spending." Docket No. 13-0192, Order at 61. But AIC insists that the record in this case demonstrates that the Company's contributions have increased steadily since the legacy utilities merged in October 2010. AIC's total contributions in 2014 (\$1.0 million) were higher than the total contributions made in 2013 (\$826,000) and 2012 (\$919,000), and significantly higher than contributions made in 2011 (\$575,000) and 2010 (\$793,000). And as AIC notes, its total contributions to date in 2015 (\$1.08 million as of August 14, 2015) already exceed the Company's 2014 contributions. AIC also notes that the record shows that the legacy utilities' contributions prior to 2010 exceed the Company's 2014 contributions: \$1.33 million in 2007, \$1.57 million in 2008, and \$1.29 million in 2009. AIC asserts that this evidence reveals a recent and gradual trend of increased charitable giving towards pre-merger levels, not that AIC's contributions are fluctuating drastically (up or down); nor does it demonstrate that there are outliers that need to be smoothed out.

AIC also notes that where the expense is not considered volatile, the Commission has rejected an averaging approach. *See, e.g., Central Ill. Light Co. d/b/a AmerenCILCO*, Docket No. 09-0306, Order at 72-77 (April 29, 2010) (finding the variation in tree trimming expense to be a generally modest upward trend). AIC notes that neither the AG nor Staff has identified another Commission order (besides the order in Docket No. 13-0192) that normalized charitable contribution expense. In Docket No. 13-0192, the Commission acknowledged that the three-year averaging methodology had not been used in the Company's prior gas rate case, Docket No. 11-0282. Docket No. 13-0192, Order at 61. Instead, the Commission found that "the circumstances of that case were the relevant factors in the decision and do not dictate that the Commission must utilize the same methodology in this proceeding...." *Id.* AIC argues that here, "the circumstances" of this case do not dictate that the Commission must utilize the same methodology used in Docket No. 13-0192.

The AG claims that it takes no position on the Company's request for charitable contribution funding for LIHEAP agencies. The AG, however, asks the Commission to attach a set of reporting conditions. The Company claims that additional reporting

conditions are unnecessary. The Company has agreed, if the Commission so chooses, to send a report to the Commission indicating that the contributions have been made.

AIC argues, in response to the AG's proposal, that there is not a current statute or Commission rule that requires these reporting conditions. Section 9-227 of the Act does not require them. And the Commission has not yet enacted any rule that would require these conditions. The AG cites AIC's reporting obligation under Section 16-108.5(b-10) of the Act. But that statutory obligation, AIC asserts, pertains to non-recoverable contributions for low-income assistance programs that AIC must make, as a condition of participating in the State's electric infrastructure investment program.

According to AIC, the AG's proposed reporting conditions are not necessary, because AIC has pledged to donate the \$1 million in contributions in January 2016 to LIHEAP organizations within the Company's service territory. The Company has stated that the funds will be earmarked for the provision of home energy financial assistance of the type that LIHEAP agencies typically provide. The Company has promised that it will still make the contributions, even if the State restores the full level of LIHEAP funding. The representations in AIC's testimony should assure the Commission that the Company will make these contributions, if its funding request is approved. And as stated above, the Company has offered to submit a report to the Commission indicating that the contributions have been made, if requested.

The AG suggests that AIC has not fully committed to spending this funding on low-income energy assistance in the future. AIC states that the Company intends to maintain its charitable giving after 2016 at or above the level requested for the test year. Whether the Company's future giving in 2017 and beyond will include the same donation to LIHEAP organizations, however, will depend on a number of factors, including the organizations that make requests for 2017 funds, the level of need that they demonstrate, and the amount of their requests. Thus, the Company has not made a specific 2017 funding commitment to LIHEAP organizations in 2017. Whether the AG is indirectly asking the Commission to require this commitment from AIC is unclear. The record, however, does not support the imposition of such a mandate on AIC to continue making a \$1.0 million donation to LIHEAP organization indefinitely beyond the test year. The Commission can be assured though that AIC's contributions, in 2017 and beyond, still will support worthwhile charitable causes within the Company's service territory.

b. AG Position

The AG observes that pursuant to Section 9-227 of the Act, the Commission has authorized recovery of such charitable donations in many of AIC's previous gas and electric rate cases. In Docket No. 13-0192, which was based on a future test year of 2014, the Commission used a three-year backward-looking average (2010 through 2012), plus 2% annual escalations, to set a forecast of charitable giving for the future test year. The Commission found that its three-year average approach "will lend itself to more consistent estimates in the future, as the averaging methodology will smooth any outliers in AIC's charitable contribution spending" and "appears to provide a justifiable estimate of test-year expenditures." Docket No. 13-0192, Order at 61. The AG states that this approach resulted in an approved recovery amount of \$317,000 in gas rates, effective for each of the 2014 and now 2015 calendar years. AIC Ex. 6.0 at 9.

The AG notes that in its initial filing in this case, AIC forecasted \$641,322 of gas-allocated charitable contributions for the 2016 test year. AIC Schedule C-7 at 15; AIC Ex. 6.0 REV. at 10. The AG notes that this represented an allocated portion of a total (gas plus electric combined) forecast of \$1,613,009 of charitable spending by AIC for the test year. AIC Schedule C-7 at 15; AIC Ex. 6.0 REV. at 10. The AG notes, however, that the Company's total charitable contributions were \$919,000 in 2012, \$826,000 in 2013, and "just over" \$1.0 million in 2014. AIC Ex. 6.0 REV. at 9-10. Thus, the most recent three-year average of Company-wide spending is about \$915,000. The AG notes that AIC's forecast (prior to its Surrebuttal Testimony) for 2016 is around 76% higher than the three-year historic average – a significant increase. Following AIC's request for recovery of its proposed \$1.0 million LIHEAP contribution made in its Surrebuttal Testimony, AIC is now asking for a recovery level that is 186% higher than its three-year historic average.

The AG states that consistent with the Commission's approach in the previous AIC gas rate case, AG witness Effron applied the three-year average from 2012 through 2014, plus two annual escalations of 2% to get to 2016, as the basis for AIC's recoverable test-year expense. AG Ex. 1.0 at 18. This calculation produced a recoverable spending amount of \$958,000, with approximately \$381,000 allocable to AIC's gas operations. *Id.*; AG Ex. 4.0 at 7; AG Ex. 4.1 REV. at 16. The AG observes that Staff witness Tolsdorf made essentially the same recommendation. Staff Ex. 1.0 at 7-10.

The AG asserts that a utility's projections of future charitable spending may not come to pass – and the Commission has no recourse should the utility decline to use the identified funds for charitable purposes. The AG observes, for example, that while AIC's 2014 gas-allocated charitable donations were \$400,000, in excess of the \$317,000 authorized in Docket No. 13-0192 for annual recovery in rates (AIC Ex. 6.0 REV. at 9-10), he also admits that AIC had projected 2014 gas-allocated charitable expenses of \$519,000 in that 2013 rate case (*id.* at 9; see also Docket No. 13-0192, Order at 61). The AG notes that similarly, over the three-year period between 2011 and 2013, the Company made charitable donations allocated to gas of \$916,081 but collected from customers \$1,370,000 for that same purpose. Staff Ex. 7.0 at 8. The AG argues that in light of AIC's history of over-estimating its charitable contributions budget, the Commission should continue to apply the approach it adopted in AIC's last gas rate case to set a reasonable amount for the charitable contributions budget and not simply accept AIC's promises of what it will do next year.

The AG also argues that AIC's actual charitable spending since before the merger of AIC's three legacy utilities in October 2010 has been highly volatile, dropping from around \$1.3 million in 2009 to around \$800,000 in 2010, then dropping again to around \$600,000 in 2011, rising to around \$900,000 in 2012, dropping to around \$800,000 in 2013, and rising again to \$1,000,000 in 2014. AIC Ex. 37.0 at 6, 10. The AG argues that this volatility warrants use once more of the same three-year averaging approach that the Commission employed in Docket No. 13-0192.

The AG notes that AIC witness Kennedy argues that "the test to determine whether that increased spending is a reasonable amount to recover in rates should not be based solely on the utility's prior spending" (AIC Ex. 6.0 REV. at 9), but he does not articulate an alternative test of reasonableness. Kennedy asserts that "AIC has the organizational

structure, community relationships and a track record of accomplishment in deploying available resources to help meet the needs of [local] organizations” (*id.* at 11) but does not explain why this structure and relationships and resources were not deployed in prior years at the claimed \$1.6 million level. Kennedy further states that “[i]t is the desire of senior leadership to continue to accelerate the pace and breadth of charitable giving.” *Id.* at 11. The AG argues that good intentions are not sufficient to justify recovery of a drastically increased level of charitable contributions in light of AIC’s consistent pattern of lower charitable giving. The AG further states that ratepayers should not be asked to fund charitable giving that is more than the Company has shown it actually has given.

The AG notes that during Surrebuttal Testimony, after two rounds of Mr. Kennedy’s attempts to explain why the Commission should grant recovery of gas-allocated contributions based on a \$1.613 million total Company spending level, AIC witness Nelson amended the Company’s proposal. Thus, the AG observes, AIC requests a total \$2.613 million of Company-wide test-year charitable spending under Section 9-227, including the \$1.0 million LIHEAP contribution. The AG states that this level is 186% higher than the three-year historic average using 2012-2014 data. The AG states that considering the \$1.0 million LIHEAP contribution alone, approximately \$398,000 would be allocated to gas operations and recoverable through this case’s rate order – more than doubling the amount currently allocated for ratepayer-funded charitable giving.

According to the AG, in support of its request for the \$1.0 million LIHEAP contribution in ratepayer funds, AIC states that while there are funds collected for low-income energy assistance, the “State is in the midst of a financial crisis;” that “state-administered programs, agencies, and offices are facing budgetary shortfalls;” and that current of state funding for low-income energy assistance is uncertain. AIC Ex. 33. The AG states that while there is a crisis this year, no one knows how long it will last, how the state LIHEAP money will be spent in the future, or what demands will be made on available funds in the coming years.

The AG states that while AIC bases its request for this additional ratepayer money on the need for additional low-income assistance, it has refused to commit to make the same \$1 million expenditure to the local social service organizations in 2017 and beyond until its next gas rate case, although it does promise to make the \$1.0 million LIHEAP contribution to some charitable recipient. AIC Ex. 33.0 at 6. The AG notes that AIC’s request to increase charitable funding by its gas customers by more than 100% (\$317,000 increased by another \$398,000) is based on the energy assistance crisis facing Illinois consumers. The AG urges that if the Commission allows this large increase in ratepayer-funding, the Commission should require that this funding be used for the purposes AIC has identified: assisting low-income customers pay their energy bills.

The AG asserts that instead of pledging to continue to help those AIC customers most in need of energy assistance, AIC states that many factors will determine whether the \$1.0 million donation to local social service organizations for home energy assistance will recur in 2017 and after. The AG notes that in a discovery response, AIC said that these “many factors” would include “many different requests from many different charitable organizations” as well as “the level of contributions utilities like ComEd and Peoples Gas are permitted to make and recover.” AG Cross Ex. 2. The AG notes that

while recognizing the crisis, AIC declined to commit to match the \$1.0 million LIHEAP contribution funded by ratepayers with a like \$1.0 million donation funded by AIC shareholders. AG Cross Ex. 1. The AG notes that AIC apparently is willing to use ratepayer funds to help low-income residents in need of home heating assistance, but not its own funds.

The AG states that it is cognizant of the difficult conditions that many low-income residents in central and southern Illinois will experience this coming winter without LIHEAP funds in the absence of an approved 2015-16 state budget. The AG is also aware that the PIPP for low-income AIC ratepayers has been suspended, due to the absence of a 2016 budget appropriation for the Department of Commerce and Economic Opportunity and the appropriation of the ratepayer-supplied LIHEAP funds now sitting in the coffers of the Department of Revenue. The AG states that the absence of these funds puts low-income residents at risk of being unable to afford heat throughout AIC's gas and electric service territories.

The AG states that if the Commission chooses to approve recovery of the \$1.0 million LIHEAP contribution (in addition to whatever decision it may make on AIC's separate, additional request for recovery of \$1.613 million of charitable contributions in 2016), it is critical that the Commission attach a set of reporting conditions, pursuant to Section 4-101 of the Act ("The Commerce Commission shall . . . keep itself informed as to the manner and method in which the business is conducted."), to ensure that the money is used for its intended purpose of benefiting low-income ratepayers. The AG states that it takes no position in this proceeding on AIC's request for rate recovery of the \$1.0 million contribution for purposes of providing home heating assistance to those who need it most. The AG notes, however, that AIC bases its request for the additional \$1 million on the LIHEAP crisis, but at the same time, it refuses to commit to continuing to spend this special, ratepayer-funded amount on low-income energy assistance in the future. The AG argues that if AIC's gas ratepayers are going to more than double their charitable contributions in order to assist low-income energy customers, ratepayers have the right to know that these funds are being used for that purpose. The AG states that reporting will provide an important level of accountability and assure that the money provided for low-income assistance is used for low-income assistance.

The AG states that it is significant that AIC charges or credits ratepayers each month to reflect the level of uncollectible expense and that low-income energy assistance can lower the uncollectible expense by making energy more affordable to those households with limited income. The AG states that to the extent that AIC customers cannot pay their bills, actual uncollectible expense is greater, and the monthly Rider Gas Uncollectibles Adjustment ("Rider GUA") charges are thereby higher. The AG observes that AIC is projecting approximately \$4.0 million of uncollectible expense in the 2016 test year. AIC Schedule C-1, page 12, line 116 (Account 904). The AG alleges that the \$1.0 million LIHEAP contribution, if it truly reaches low-income gas customers in danger of not paying their AIC gas bills this year and in future years, thus has the potential to reduce Rider GUA charges for all ratepayers. The AG states that because the \$1.0 million LIHEAP contribution will affect ratepayers' pocketbooks as a component of both base rates and Rider GUA charges, the People of the State of Illinois have a strong interest in

seeing that, if approved, the \$1.0 million LIHEAP contribution is used for the intended purpose.

The AG recommends that AIC report to the Commission: (i) the disbursement status of the \$1.0 million contribution; (ii) the local agencies or other charitable recipients that received funds through that contribution, broken out by amount; (iii) the formal or informal agreements that AIC reached with those agencies for how the monies are to be used; and (iv) the amount spent to avoid disconnection for non-payment. The AG suggests that this information can be added to AIC's electric report concerning its customer assistance programs under Section 16-108.5(b-10) of the Act. 220 ILCS 5/16-108.5(b-10). This section provides that while payments made under Section 16-108.5(b-10) "shall not be a recoverable expense," the utility "may elect to fund either new or existing customer assistance programs, including but not limited to, those that are administered by the utility." According to the AG, therefore, there is no statutory obstacle to reporting customer assistance expenditures funded by both ratepayers and shareholders in this required report. The AG recommends that AIC should be required to submit this information every year until a new gas rate order takes effect. The AG states that this reporting requirement will ensure that AIC's extraordinary recovery is, in fact, tied to the emergency purposes it cites in its Surrebuttal Testimony.

c. Staff Position

Staff proposes to reduce the overall level of the Company's forecasted contributions to a 3-year average of actual contributions (2012-2014) with a 2% increase for 2015 and 2016. Staff Ex. 7.0 at 5-6. This is the same methodology that was accepted by the Commission in AIC's most recent gas rate case. Docket No. 13-0192, Order at 209. Initially, the Company asked for a 102% increase over what the Company is currently collecting in rates. In Surrebuttal Testimony, the Company increased this amount, requesting an additional \$1,000,000 (\$398,000 allocable to gas) which, if allowed by the Commission, would result in a 228% increase over what customers are currently paying in rates for a discretionary expense. The Company's contention that this 228% increase is reasonable is dubious, Staff claims, especially in light of their past practices.

Staff notes that charitable contributions are a discretionary expense that a utility can choose unilaterally to incur or to not incur as a utility sees fit. Section 9-227 does not presume that every donation is reasonable and the burden of proof to demonstrate that the amount claimed as an operating expense is reasonable falls squarely on the utility. *See, e.g., Business and Prof'l People for the Pub. Interest v. Ill. Commerce Comm'n*, 146 Ill.2d 175, 255 (1991). Staff avers that AIC has failed to meet that burden.

According to Staff, in recent years, AIC has exercised its discretion to make charitable donations at a level far below what the Company has collected in rates. For example, in a prior gas rate case, the Company proposed a 2012 future test year with an estimate of \$2,000,000 in charitable contributions, of which \$775,000 would be allocated to gas. *Ameren Ill. Co. d/b/a Ameren Ill.*, Docket No. 11-0282, Order at 26 (Jan. 10, 2012). In 2012, however, the Company made only \$366,575 in contributions allocated to gas. This was less than half of what the Company budgeted for charitable contributions that year. Further, during the 3-year period from 2011-2013, the Company collected

\$1,370,000 for charitable contributions through rates but during that same time period only made donations of \$916,081. Staff Ex. 7.0, Attach. A.

The Commission-approved methodology used by Staff in developing its recommendation does not prevent the Company from making donations to the charitable organizations of its choice. Further, it does not prevent the Company from recouping charitable donations through rates at a level that reflects the level of giving at which the Company was actually engaged. Use of the most recent 3-year average with an inflation factor rewards the Company for the actual donations the Company has made in the past, while anticipating the Company will maintain or grow their level of charitable giving in future years. Historically, AIC has filed for a rate increase every two to three years and there is no reason to believe that this trend will not continue. If the Commission adopts the same methodology that was applied in the last AIC gas rate case, the Company will continue to recoup through rates amounts commensurate with the actual contributions the Company has made. Staff states that the purpose of establishing rates utilizing a test year is so that expenses are normalized and future years do not reflect aberrations in the utility's operations. A 228% increase in charitable giving is an aberration, as it bears no relation to the Company's past practices. If and when the Company makes actual donations which are 228% greater than what is currently being collected in rates, then future rate years will be adjusted to reflect that level of contributions. Until then, the Company's actual charitable giving should be the benchmark by which the Commission sets a reasonable level of contributions to be collected from ratepayers.

Staff notes that the Company argues that its proposed contributions are less than the per-customer contributions being recovered in rates by other large electric and gas utilities in Illinois. While this may or may not be the case, Staff argues that it is not the proper standard by which to determine reasonableness. Comparison of AIC's per-customer donations with those of another utility are meaningless for the purpose of determining reasonableness in this rate case absent a similar analysis of how the per-customer donations compare with a customer's utility bill as a whole and, even more importantly, without a comparison of how the per-customer donation has changed from year to year. If the utilities with which AIC would compare itself have historically given at much higher rates than AIC, Staff reasons that the per-customer charge is a reflection of that historical giving. Comparing AIC's proposal to the level of per-customer donations made by other utilities demonstrates only the level of giving at which other utilities are engaged; it says nothing about whether AIC's proposal to charge customers at a comparable level is reasonable in this case.

AIC is asking ratepayers to fund a 228% increase over what they currently collect and a 141% increase over what AIC has funded thus far in 2015. The requested 228% increase represents a jump from \$.39 per customer to approximately \$1.28 per customer. Even if AIC were to double what it has already contributed in 2015 before the end of the year, the amount it requests for 2016 would still be more than a 20% increase over that doubled spending. While AIC would have the Commission grant a significant increase in charitable spending to be recouped from customers simply because other utilities have higher per customer charitable contribution costs, AIC does not and cannot argue that a 228% increase is reasonable.

According to Staff, utilities are allowed to include charitable contributions in the rates they charge to customers based on the presumption that those charitable dollars will support causes in the utilities' service area and that support of those causes will be viewed favorably by ratepayers; there is no shortage of worthwhile causes in need of support. Staff opines that there is no obligation for the utility to fund any particular charity at any particular level once a rate increase is approved, notwithstanding any statements by the Company that it plans to fund a specific cause at a specific dollar amount. Accordingly, Staff argues that the Commission reviews charitable contributions the same way it reviews any other portion of a Company's filing: it must make a determination that the proposed funding level is both reasonable and allowable, without infringing on the Company's right to make a business decision as to how any funds should be spent. Further, the Commission must determine the reasonableness of the amount of contributions based on the total contributions in addition to individually evaluating each proposed contribution. "There are numerous charitable organizations worthy of [a utility's] support. If [AIC] were to make a reasonable donation to each of these organizations, the aggregate total of the donations could very easily exceed a reasonable amount." *Business and Prof'l People for the Pub. Interest*, 146 Ill.2d at 255.

Staff offers no opinion on the particular programs AIC asserts it will fund through increased rate-payer funded charitable giving. The Commission does not and should not weigh the merits of a utility's support for one particular charity or cause versus another. Rather, the issue is one of reasonableness. The utility bears the burden of demonstrating that the costs it seeks to recoup from ratepayers are reasonable. In light of the Company's past practices, a 228% increase in ratepayer-funded charitable contributions is not reasonable and should not be allowed.

d. CUB/IIEC Position

CUB/IIEC observe that both Staff witness Tolsdorf and AG witness Effron reviewed AIC's charitable contributions expense and determined that the amount requested is unreasonable in light of AIC's recent actual contribution levels. Mr. Tolsdorf and Mr. Effron each made adjustments to AIC's total requested \$641,322 of gas-allocated charitable contributions for the 2016 test year, to take into consideration AIC's recent history of actually contributing less than what it has been authorized to collect through rates for charitable activities. Staff Ex. 1.0 at 8; AG Ex. 1.0 at 17.

CUB/IIEC, the AG and Staff each recommend the Commission limit recovery of charitable contributions to a normalized amount. This approach takes into consideration the record evidence of lower-than-approved spending in 2011-2013, while still allowing for a reasonable increase from the last case. CUB/IIEC aver that the Company's interest in significantly increasing contributions in 2015, and the value those contributions may create in the AIC service territory, must be weighed against AIC's history of underfunding charitable contributions. CUB/IIEC point out that over the three-year period between 2011 and 2013, the Company made charitable donations allocated to gas of \$916,081 but collected \$1,370,000 from all its customers for that purpose. Staff Ex. 7.0 at 8.

According to CUB/IIEC, the increase in AIC's stated contribution levels is significant enough that it can be considered an outlier or anomaly, for which it is entirely appropriate to normalize. The Commission adopted the same normalization methodology

(a three-year backward-looking average, plus 2% annual escalations), in AIC's last general rate proceeding, concluding that this approach "will lend itself to more consistent estimates in the future, as the averaging methodology will smooth any outliers in AIC's charitable contribution spending." Docket No. 13-0192, Order at 61. In the opinion of CUB/IEEC, the facts in this proceeding demonstrate that this same methodology is prudent and reasonable, to smooth out the anomalous growth in AIC's planned charitable contributions. While AIC's increased charitable contributions are laudable, the amount of that expense to include in rates that are charged to all of AIC's ratepayers, should reflect a more normalized level of this expense.

Specifically, with regard to the \$1 million additional funding AIC plans to donate to LIHEAP agencies, CUB/IEEC agree with the AG that, if the Commission allows this additional level of contributions in rates, certain reporting requirements must apply to ensure the funding is used for assisting low-income customers pay their energy bills.

e. Commission Analysis and Conclusion

In this proceeding, AIC initially requested that the Commission approve \$641,322 in charitable contributions. In Surrebuttal Testimony, the Company requests an additional \$398,000 (\$1.0 million Company-wide), which it intends to donate to LIHEAP organizations in the 2016 test year.

The Commission notes that Section 9-227 of the Act states:

It shall be proper for the Commission to consider as an operating expense, for the purpose of determining whether a rate or other charge or classification is sufficient, donations made by a public utility for the public welfare or for charitable scientific, religious or educational purposes, provided that such donations are reasonable in amount.

220 ILCS 5/9-227. The Act gives no further guidance on what constitutes a reasonable amount. The Commission notes that although charitable donations are recoverable, they are not necessary to provide utility service and are entirely discretionary. For AIC's customers, the Company's proposal means a monthly bill increase from \$.39 per customer to \$1.28 per customer.

The Commission finds the amount requested by the Company, \$1,039,000, to be unreasonable. The \$1,039,000 includes the Company's initial request of \$641,322 and also the \$398,000 for the LIHEAP contribution. The Commission will consider these requests separately.

In Docket No. 13-0192, the Commission approved \$317,000 for AIC in charitable contributions, based on a three year historical average with annual 2% escalations. In this proceeding, Staff and the AG propose that the Commission also utilize a three year historical average with annual 2% escalations, which results in \$376,000 (AG calculates \$381,000) approved for charitable contributions.

With respect to the Company's initial request, the Commission adopts the position of Staff. Consistent with its decision in Docket No. 13-0192, the Commission will base its approved recovery level on a three-year average of AIC's actual charitable spending from

2012 through 2014, plus a 2% escalation factor for 2015 and 2016. This approach smooths out outliers and volatile charitable spending in the recent past.

For the \$1.0 million LIHEAP contribution (\$398,000 allocable to gas) the Commission sees that Staff is the only party to absolutely oppose this contribution, based on unreasonableness. The AG and CUB do not make a specific recommendation on whether to approve the additional LIHEAP contribution, but recommend that if the additional contribution is approved it have reporting requirements attached. Staff is opposed to any reporting requirements being attached to the Company's charitable contributions. The Commission cannot accept Staff's strict view of this issue.

The amount requested, at least when compared to recent history, is unreasonable, but because of the Company's commitment to donate to LIHEAP, the Commission finds it to be reasonable. This finding of reasonableness is limited to this proceeding and is expressly linked to the LIHEAP commitment. The basis for this conditional approval is that the amount on its own is unreasonable, but because of the interplay between LIHEAP, the Company's uncollectibles, and utility bills, the request becomes reasonable. There is no question that a donation to LIHEAP of this magnitude will have a meaningful impact on AIC's customers.

Although AIC premises its request on the financial crisis and its low-income customers, AIC refuses to commit to making the same donation to LIHEAP beyond the test year. The AG suggests that, therefore, AIC should be required to contribute to LIHEAP in the years following the test year. The Commission agrees that this is a valid proposal, but it is one for which the Commission does not have the legal authority to impose.

Because the Commission finds that reasonableness is based on the interplay between the Company's uncollectibles and low-income energy assistance, the Commission finds the AG's reporting proposal to be appropriate. Thus, the Commission orders that, until the next gas delivery service rate order takes effect, AIC should annually report the following in connection with this authorization: (i) the disbursement status of this \$1.0 million contribution for low-income home energy assistance; (ii) the local agencies or other charitable recipients that received funds through that \$1.0 million contribution, broken out by amount; (iii) the formal or informal agreements that AIC reached with those agencies for how the monies are to be used; and (iv) the amount spent to avoid disconnection for non-payment. This information can be added to AIC's annual electric report concerning its customer assistance programs under Section 16-108.5(b-10) of the Act, or made in some other fashion that AIC determines is appropriate.

2. Non-Union Salaries and Wages

a. AIC Position

AIC notes that a public utility is entitled to recover its prudent and reasonable costs of service, including employee wages. *People ex rel. Madigan v. Ill. Commerce Comm'n*, 2011 IL App (1st) 100654, ¶ 49 (citing *Business and Prof'l People for Pub. Interest*, 146 Ill. 2d at 247; *Villages of Milford v. Ill. Commerce Comm'n*, 20 Ill. 2d 556, 565 (1960)). AIC believes that prudent and reasonable employee wages are those that enable the

utility to maintain the workforce it needs to satisfy its obligation to provide adequate, efficient, reliable, safe, and least-cost service to Illinois customers. 220 ILCS 5/1-102.

AIC states that its test year level of non-union employee wages reflects the annual increases in wages during 2015 and 2016 that AIC expects it will need to attract and retain its skilled workforce. AIC's projected 2016 increase is 4%: 3% for merit pay adjustments and 1% for all other pay adjustments (i.e., promotions, job reclassifications, and temporary to regular position changes). AIC explains that this is based on both the Company's actual experience since at least 2011 and the compensation offered by the companies with which AIC competes for talent.

AIC explains that in each year 2011 to 2014, AIC required a total non-union wages increase of slightly greater than 4% to compensate its workforce for their performance and changes in employment positions. In 2014, for example, AIC required an actual increase of 4.03%. AIC maintains that this actual experience supports AIC's forecasted 4% non-union wages increase for 2016.

AIC argues that relying on its actual non-union wages increase experience to forecast its future non-union wages increase experience is sound. AIC's actual 2011-2014 merit pay increases and other pay adjustments reflect the compensation levels that AIC has historically required to attract and retain its workforce. AIC maintains that the best evidence of this is the absence of a significant turnover. That absence shows that AIC's approach to compensation has functioned as intended: AIC has retained employees.

AIC contends that relying on its actual experience to forecast future non-union wage increases ensures least cost service for customers because it reflects a pay practice that is designed to engage and motivate employees in a cost effective manner. AIC sets a range of pay for each role at the Company, which it explains is 20% above and below the market median compensation for that role; candidates are offered a salary commensurate with their role and the skills, expertise, and experience that they bring to it. AIC explains that newer, less experienced employees, therefore, are offered compensation at the lower end of the pay range, and then, over time, as they become more experienced employees, their base pay increases towards the middle of the pay range. AIC believes that this pay practice allows the Company to motivate employees and reward them for performance with pay increases, while maintaining their compensation at the market median level.

AIC maintains that relying on its actual experience to forecast future non-union wage increases ensures least cost service also because the absence of a significant turnover in its workforce means that it will have more experienced employees who will be more efficient thereby reducing the operating costs that ultimately impact customer rates. AIC continues, the absence of turnover also means the avoided costs of turnover such as investment in training and reduced employee productivity associated with new hires.

AIC asserts that its forecasted test year non-union wages increase is also based on extensive market compensation data—specifically, the merit pay budgets reported by the thousands of companies that AIC competes with for skilled employees. AIC maintains that this market compensation data confirms that its forecasted 3% merit pay increase is

accurate and reliable, and ensures that AIC will be able to compete for a talented workforce. Moreover, AIC contends that it must offer compensation that is competitive with the compensation that other companies pay, especially given that it is a utility, with an aging utility workforce and the stagnant population of STEM (Science, Technology, Engineering, Mathematics) qualified employees. For this reason, AIC believes it must consider other companies' merit pay budgets when it sets its own.

AIC complains that the AG asks the Commission to ignore both AIC's actual non-union wages increase experience and the merit pay increases budgeted by the thousands of companies that AIC competes with for skilled employees, and cut AIC's test year non-union wages increase in half. AIC states that AG witness Coppola never disputed that AIC's forecasted increase is accurate and reliable, and he admitted that he did not prepare any study or analysis that compared AIC's historical and projected non-union wages increases to the historical and projected non-union wages increases for any other utility (or company). Instead, AIC explains, Mr. Coppola proposed that the Commission cap AIC's test year non-union wages increase at 2%, based on a single data point (the historical Employment Cost Index) from a single page of an otherwise unavailable report that Mr. Coppola obtained in discovery in another utility's rate case. AIC notes that Mr. Coppola argues this supports his belief that AIC should hold future non-union wages increases within historical inflationary levels. AIC notes that Mr. Coppola would also cap AIC's 2014 and 2015 increases at 2%, which AIC explains would undo wage increases that have already happened.

AIC argues that Mr. Coppola's 2% cap is arbitrary and unlawful, particularly since Mr. Coppola relies on only the historical Employment Cost Index from a single page, to the exclusion of the projected figures reported (all which are greater than 2%). AIC further maintains that his cap is unreasonable and imprudent, because it would risk AIC's ability to attract and retain the skilled employees that it needs to meet its service obligations to Illinois customers.

AIC reiterates that utility rates must allow the utility to recover its prudent and reasonable costs of service. *Citizens Util. Bd. v. Ill. Commerce Comm'n*, 166 Ill. 2d 111, 126 (1995). Thus, AIC states, the Commission cannot simply disregard the level of an operating expense shown by the evidence in favor of an arbitrarily lower amount. *Peoples Gas Light & Coke Co. v. Slattery*, 373 Ill. 31, 61-62 (1939); *Business and Prof'l People for Pub. Interest*, 136 Ill. 2d 192, 230-234 (1989) (reversing rates set by the Commission based on a Staff analysis where "Staff arbitrarily selected the midpoint of the rate range and made arbitrary assumptions on the success of the various positions of the parties and the intervenors"); *Citizens Util. Bd.*, 166 Ill. 2d at 126, 133-134 (reversing Commission decision that arbitrarily reduced the utility's coal-tar clean-up expense because it did not rest on adequate substantiating evidence).

AIC asserts that Mr. Coppola's 2% cap is arbitrary for several reasons. It is based on a single data point: historical "Employment Cost Index – Total Comp." figures as reported by IHS Economics on a single page of an apparently larger April 2015 report. Mr. Coppola never explained why he relied on only the historical figures on the page, to the exclusion of the much higher projected figures. Further, AIC argues that a comparison of these historical figures to AIC's actual non-union wages increase experience for 2012-

2014 shows that the index is not a good indicator of AIC's historical non-union wages increase since it has consistently trailed AIC's experience. AIC maintains that the prospective figures on Mr. Coppola's single page, therefore likely understate AIC's future experience.

AIC states that Mr. Coppola's 2% cap is arbitrary for another reason, namely that it is not based on AIC's actual non-union wages increase experience, or even the extensive industry benchmarks that AIC uses to forecast its non-union employee wages. Additionally, AIC argues that it appears Mr. Coppola does not know what his cap is based on, because he does not know what precisely the "Employment Cost Index – Total Comp." figures he relies on actually reflect. According to AIC, the numbers come from a single page of an apparently larger report, which AIC notes that Mr. Coppola has not seen and cannot provide. AIC maintains that the figures that Mr. Coppola relies on are problematic also because the index is reported in a variety of ways: by compensation type, bargaining status, geography, occupation, and industry, among others. Without the context of the broader report from which Mr. Coppola's "Employment Cost Index – Total Comp." figures come, AIC maintains, it is impossible to know precisely what those figures actually reflect—which occupation, industry, or bargaining status, for example—or whether there are any disclaimers in the report regarding how they are to be used. And therefore, AIC argues, it is likewise impossible to know if the figures are even relevant to the Company's non-union population. Finally, AIC contends that although Mr. Coppola stated that his reliance on the figures in this index is appropriate because it "is similar to adjusting other operations and maintenance ("O&M") expenses based on the Consumer Price Index or other inflation index", he has failed to show this is the case. AIC states that, to the contrary, when considering historical test years, the Commission's rules provide that "inflation factors shall not be substituted for a specific study of individual capital, revenue, and expense components." 83 Ill. Adm. Code 287.40. Moreover, O&M expenses are not routinely determined based on inflation alone according to AIC.

AIC asserts that even if Mr. Coppola's 2% cap were not arbitrary and could be verified, it still must be rejected. AIC argues that Mr. Coppola's 2% cap would risk the Company's ability to attract and retain the skilled employees that it needs to meet its service obligations, which would not be prudent or reasonable. Thus, AIC submits that the Commission should be concerned about the impact of Mr. Coppola's arbitrary cap on service to AIC's Illinois gas customers.

AIC claims that Mr. Coppola does not explain how reliance on a single data point would allow the Company to attract and retain its workforce, and that his approach simply does not comport with industry best practices for setting a compensation budget. Rather, AIC argues, other objectives must be considered: turnover, salary survey information, offering competitive pay, paying for performance, attracting and retaining critical skills, and fiscal discipline. AIC notes that Mr. Coppola considers none of these factors, but they are an integral part of AIC's budgeting process for non-union wages increases because they are as, if not more, important considerations than broad economic indicators, such as national wage inflation, when setting a wage budget.

AIC challenges the AG's claims that there is no evidence that a lower percentage increase in base pay would undermine AIC's ability to attract and retain employees. AIC

argues that the absence of a turnover shows that AIC's historical merit and other pay adjustments—on which its test year forecast is based—have functioned as intended: they have permitted AIC to retain its workforce by paying competitive salaries and wages. Further, AIC notes that the Commission has recently recognized the importance of paying market competitive pay. See *Commonwealth Edison Co.*, Docket No. 14-0312, Order at 49-50 (Dec. 10, 2014) (approving incentive compensation level that “insures that ComEd recovers the market-based salary for their employees”).

AIC believes the AG's assertion that “[n]o significant turnover in management or non-union ranks has been shown to warrant defining a 4% increase in base pay as ‘necessary’ to attract, retain and motivate employees” is puzzling for several reasons. Most glaring, it would be imprudent for it to reduce non-union wages below what AIC's experience and the market have shown to be reasonable, and risk a significant workforce turnover. AIC asserts that, by wanting evidence of a “significant turnover in management or non-union ranks,” the AG wants AIC to prove a negative. AIC argues that the practical reality is that disproving certain propositions or proving negatives can be impractical and expensive—or outright impossible. See, e.g., *Ethyl Corp. v. EPA*, 51 F.3d 1053, 1064 (D.C. Cir. 1995) (upholding agency decision rejecting interpretation of “burden of proof [that] would be virtually impossible for an applicant to meet, as it requires the proof of a negative proposition”). And AIC contends that the AG has not presented any evidence that a decrease in AIC's non-union wages would not cause it to lose valuable employees to market competitors, (AIC Ex. 44.0 at 5), although AIC maintains that proof is the AG's burden. See, e.g., *Ill. Commerce Comm'n v. Ill. Consol. Tel. Co.*, Docket No. 94-0042, 1995 Ill. PUC LEXIS 828, at *103 (Dec. 6, 1995) (“[E]ach party proposing a result should bear the burden of adducing evidence in support of that proposal.”).

AIC also believes the AG's criticism of the fact that the majority of employees receive an annual merit pay increase is equally puzzling. AIC asserts that it is a good thing that a majority of employees perform well and are regularly recognized for their performance with merit pay increases since poor employee performance would have a negative impact on customer service. AIC also asserts that it should be expected that a majority of employees are regularly recognized for performance with merit pay increases because non-performers would typically leave the Company or be counseled out. Further, AIC points out that the AG never says what percentage of employees should receive a merit pay increase.

AIC asserts that the AG's criticism of the fact that AIC employees are eligible for both merit pay increases and incentive compensation should also be disregarded. AIC argues this is not unusual. Merit pay and incentive pay reward different things: the latter is earned based on an individual employee's knowledge, skills, and abilities; the former is earned based on departmental or company-wide performance of defined operational goals. AIC notes that the Commission regularly approves recovery of both. See, e.g., *North Shore Gas Co.*, Docket Nos. 07-0241/07-0242 (Consol.), Order at 66 (Feb. 5, 2008) (“Being a large utility means that management depends on the dutiful work performance of its employees. To motivate and maintain high standards, a utility may reasonably offer incentive compensation as the best way to match both employer and employee interests and to ensure quality work performance.”). AIC maintains that its base wages plus

incentive compensation are targeted to market compensation levels which is not unreasonable.

It is AIC's view that the AG's reliance on U.S. household income data does not support the AG's position on this issue. AIC argues that despite the AG's intention, it failed to provide convincing evidence that Mr. Coppola's 2% cap aligns with household income patterns in Illinois. AIC explains that the AG never actually produced U.S. Census Bureau information in this case despite AIC's requests for documents supporting the income numbers in Mr. Coppola's Direct Testimony. AIC explains that Mr. Coppola eventually admitted that the source of the information provided in AG Exhibit 5.4 was a website called "DepartmentofNumbers.com," and that he never obtained a copy of the U.S. Census Bureau American Community Survey that he says his numbers come from. Further, AIC argues the numbers from this website do not even support the AG's stagnant or declining income numbers—unless you only look at the numbers arbitrarily relied on by the AG.

AIC also argues that putting aside the questionable source of the AG's household income numbers and the AG's selective reliance on them, it is simply not best practice to rely on household income data to set wages. AIC explains that median household income can fluctuate for many reasons. Additionally, since some of the factors that influence median household income also influence market pay, these economic conditions are already factored into AIC's comprehensive approach to wage setting, which, as explained, relies on extensive market data. AIC states that the AG claims it is "misguided" to say this, but never explains why it is "misguided."

Moreover, AIC states that the AG's arguments are flawed because the AG makes many assertions in its briefs that ignore or misstate the record. AIC points out, for example, that the AG stated in its Initial Brief, "[n]othing prevents the Company from shifting budget dollars from other O&M categories, just as any competitive business might do, or even augmenting particular salaries with shareholder dollars to support these wage increases." AG Corr. Init. Br. at 24. AIC states that the AG provides no cite for this statement, no witness testified that this was the case, and there is no other record basis for it. AIC maintains that with this argument the AG reveals a misunderstanding of ratemaking. AIC asserts that the Company's test year level of O&M expense is set to meet AIC's obligation to provide adequate, efficient, reliable, safe, and least-cost service to customers. 220 ILCS 5/1-102. If the AG believes that there should be dollars available for "shifting," then AIC's O&M expense needs to be adjusted higher to allow AIC to both meet its service obligations and undertake the budget dollar shifting the AG suggests is appropriate.

AIC thinks that perhaps most egregious is the AG's assertion that the Commission should ignore AIC's actual non-union wages experience, or it "would put the Commission in a position of rubber-stamping any pay practices the Company deems appropriate to its self-interest" and "there is no limit to what could be recoverable." *Id.* at 18. AIC maintains that there is no evidence that the Commission "rubber-stamps" any costs in a rate case, and that it is audacious for the AG to imply that the Commission ever does, or that the Commission rubber-stamped AIC's non-union wages increase in its last rate case, when

it approved an increase based on the Company's actual experience. Docket No.13-0192, Order at 21-22.

Further, AIC argues that the record evidence makes abundantly clear that the pay increases that AIC offers its employees for their performance and their willingness to accept changes in employment position is not in AIC's "self-interest". AIC contends that it is in the best interest of AIC's customers, because it allows AIC to attract and retain the workforce it needs to provide adequate, efficient, reliable, safe, and least-cost gas service—a workforce that may be increasingly challenging to attract.

Finally, AIC states that there necessarily is a limit to the pay increases that are recoverable, due to the nature of a future test year rate case. AIC states that the AG plainly recognizes, for example, that AIC's actual non-union wages increase in 2014 was 4.03%. AIC notes, however, that only a 4% increase was included in the 2014 test year in AIC's last gas rate case. AIC explains the same 4% forecast was included in the 2012 test year in AIC's 2011 rate case, although the Company's actual's 2012 increase was 4.18%. In other words, AIC asserts, AIC has historically spent slightly more, and so recovered slightly less in rates, than the Commission has authorized.

AIC concludes that the AG offers no lawful basis for the Commission to adopt Mr. Coppola's 2% cap on AIC's test year non-union wages increase. AIC argues that the Commission should not dismiss this important point; it should reject the AG's adjustment, and approve AIC's forecasted test year increase in non-union wages.

b. AG Position

The AG notes that the Company disclosed in its rate case filing that for the years 2015 and 2016, it had projected non-union salary and wage increases of 3% and 4%, respectively. In comparison, union wages were forecasted to increase at an annual rate of 2.5% based on existing labor contracts. AG Ex. 2.0 REV. at 7. In response to discovery, the Company provided salary and wage information for the four years from 2011 to 2014. The AG points out that this information shows that non-union, base salaries and wages have increased at an annual rate between 4.03% and 4.18%. The AG explains that these percentages reflect, primarily, annual merit increases and other base-pay adjustments, such as market pay adjustments, promotions and job reclassifications. *Id.* at 7.

AG witness Coppola observed that this annual rate of increase is quite significant, amounting to an increase of more than 26% in base pay over the six-year period from 2011 to 2016. Mr. Coppola testified that this rate of non-union forecast wage increases is particularly excessive when assessed within the lens of stagnant wage growth in the economy generally, and lower household income experienced by Illinois residents over the past few years.

Given these facts, the AG recommends that a 2% increase, which is in line with historical wage increases during the past three years, as reported by IHS Economics, be assumed for purposes of the test year forecast. This rate of wage increase is approximately half the rate forecasted by the Company. *Id.* at 7-8. AG Exhibit 2.4 shows the calculated, cumulative impact of the difference in salary and wage increases determined by the Company during the three-year period of 2014 to 2016 against the 2%

increase Mr. Coppola proposes. The AG states that the adjustment results in a reduction of approximately \$1.6 million to O&M expense and \$0.8 million to capitalized costs. AG Ex. 2.4.

The AG points out that, in response to Mr. Coppola's proposed adjustment, AIC witness Langenhorst stated that the historical annual increase in salaries and wages and the projected increases in 2015 and in 2016 are reasonable for inclusion in customer rates because they are based on market surveys, have been paid consistently in prior years, and help attract and retain qualified employees. AIC Ex. 31.0 at 9. The AG counters that the fact that the Company actually increased base wages and salaries for its non-union employees in prior years should not be a determining factor for permitting recovery of these costs in rates going forward. Mr. Coppola pointed out that if the determining factor were "we paid for it, so we should recover it in rates," then there is no limit to what could be recoverable. According to the AG, such criteria would put the Commission in a position of rubber-stamping any pay practices the Company implements to satisfy its self-interest. AG Ex. 5.0 at 3.

The AG disputes the Company's assertion that the historic trend of the level of non-union wages AIC actually incurs is a more accurate and reliable indicator of total future non-union wage expense requirements than historical Employment Cost Index or median household income data. According to the AG, the Employment Cost Index-Total Compensation of 2% proposed measures total wage increases and is a good indicator of national wage inflation, both historical and prospective. While an assessment of actual AIC data for purposes of assessing the reasonableness of forecasted numbers makes sense for items such as fuel costs, which are out of the Company's control, it is reasonable for the Commission to expect the Company to manage its business within this wage inflation factor for base pay increases, particularly when the Company also pays short-term incentive pay on top of the 4% base pay increases each year. AG Ex. 5.0 at 4.

The AG takes issue with the Company's reliance on market surveys as a basis for its proposed non-union pay increase. The AG states that when it requested a copy of the surveys from the Company to determine who the participating companies were, how the information was compiled, and when, the Company argued that it could not provide the information, claiming confidentiality and proprietary restrictions. The AG contends this argument is an unreasonable basis for non-disclosure since a protective order was issued in this docket. AG Ex. 3.0 at 4-5.

The AG also states that while allegedly relying on the market surveys for purposes of its wage forecast, the Company made no effort to determine whether the reported increases had actually occurred. For example, when asked in discovery whether it had determined what the actual salary and wage increases had been for those companies in the market surveys for each year, 2011 to 2014, AIC reported in its response that this information was not reported in the surveys. *Id.* at 4-5; See AG Ex. 5.1. Mr. Coppola observed that having actual data from these companies is important since it would validate whether or not projections of what the companies might pay in the future actually came to pass. According to the AG, companies often optimistically forecast what they may want merit increases to be in future years, but realities frequently set in and those

increases do not actually happen. AG Ex. 5.0 at 5. On the other hand, the AG states that the Employment Cost Index-Total Compensation, which forms the basis of the AG-recommended non-union wage adjustment, reflects the actual total pay increases -- not expectations.

The AG argues that like its defense of its Non-Qualified Pension Costs for certain executives, the Company asserts that it was necessary to historically pay a 3% merit increase and an additional 1% in other pay adjustments in order to attract, retain and motivate talented employees. AIC Ex. 31.0 at 5-6. But as Mr. Coppola pointed out, the Company provided no evidence that a lower percentage increase in base pay would undermine that objective. Specifically, the AG maintains that no significant or unusual turnover in management or non-union ranks has been shown to warrant defining a 4% increase in base pay as “necessary” to attract, retain and motivate employees. AG Ex. 3.0 at 5.

The Company’s reasoning to justify 4% base pay increases is based on aspirational rhetoric, rather than factual data, in the AG’s view. AG Ex. 5.0 at 5-6. The AG notes that in response to data requests sent by the AG, the Company reported that less than 20 employees since 2010 mentioned compensation as an issue. AG Ex. 5.2. The AG argues this is not out of the ordinary and that it is unlikely that employees would leave employment or be less attracted to the Company if it increased base wages at 2% in line with national wage inflation instead of the proposed 4%. The AG further argues that Ms. Langenhorst’s suggestion that the base pay level is necessary for employee motivation is unconvincing since the Company pays generous incentive bonuses to allegedly motivate employees to increase their performance.

The AG challenges the Company’s argument that the annual non-union wage increase forecast does not reflect an across-the-board wage increase as occurs with the union workforce, but instead are merit-based pay-for-performance increases. The AG notes that in response to an AG data request that asked the Company to provide the percentage of non-union employees who did not receive a merit pay increase in each year from 2011 to 2015, the Company indicated that only approximately 1% to 4% of the employees did not receive a merit increase. See AG Ex. 5.3. It is the AG’s opinion that this would indicate nearly an across-the-board wage increase and not a selective approach as implied in Ms. Langenhorst’s Rebuttal Testimony. Furthermore, all of those employees also are eligible to receive an additional annual incentive pay award under the Company’s compensation policies. According to the AG, if employees are receiving merit increases for performance and also are being rewarded with incentive pay for performance, then that performance is being rewarded twice. AG Ex. 5.0 at 6. The AG submits that a more tempered forecasted increase in pay of 2%, consistent with wage inflation, makes more sense and is very reasonable – particularly considering the fact that incentive pay is added as another layer of compensation.

According to the AG, AIC witness Langenhorst’s protestations about the use of the Employment Cost Index as a benchmark for base pay allowances is unpersuasive. Mr. Coppola pointed out that IHS is a well-known and respected publisher of historical and forecasted economic data sourced from government agencies, surveys and research. Their clients span the globe and their published information is used by corporations,

including utilities, for inclusion in internal cost and revenue projections and to guide business decisions. The AG states that Ms. Langenhorst's unfamiliarity with IHS in no way mars the reputation of the firm and the usefulness of its published data, including the Employment Cost Index-Total Compensation. AG Ex. 5.0 at 7-8. Further, Ms. Langenhorst's statement that it is not intended to be a measure directly related to or predictive of changes in employment wages is contradicted by her description of what the index represents.

Using a reliable labor cost factor such as the Employment Cost Index is a reasonable, fact-based approach to setting base wage expense, the AG asserts. The AG opines that this is similar to adjusting other O&M expenses based on the Consumer Price Index or other inflation index. *Id.* at 8.

Additionally, the AG states that Ms. Langenhorst's argument in response to Mr. Coppola's reference to the compounded pay increase of 26% that AIC has awarded its employees rings hollow. AIC Ex. 31.0 at 15. The AG explains that Ms. Langenhorst attempts to dissect the 4% average base pay increases that the Company has granted to deflect attention from the issue by noting that only 3% is available for annual base pay increases, and that the remaining 1% is available "to adjust an individual's pay for a promotion, job reclassification, market pay adjustment, etc." *Id.* at 14. The AG maintains that whether base pay is increased through merit increases or other pay adjustments, it is still going up at a 4% annual rate. It is also unimportant whether some employees get more or less than the average rate within the context of setting a reasonable level of salary and wage expense in rates. Mathematically, it is also indisputable that compounding 4% annual base pay increases from 2011 to 2016 will increase base wages and salaries by more than 26% over the 5-year period. The AG contends that requiring customers to finance a 26% increase over five years is also excessive when the average household in Illinois has seen its income stagnate and actually drop from \$60,841 in 2008 to \$56,210 in 2013. AG Ex. 5.0 at 9.

Lastly, the AG defends Mr. Coppola's reliance on U.S. Census Bureau data to reflect the Illinois median average household income information included in his analysis of this issue. The AG states that contrary to the AIC's claims, the source of median household income is shown at the beginning of the U.S. Census Bureau American Community Survey document, which was provided to the Company and included in the record as AG Exhibit 5.4. Moreover, the AG argues that the Company could have easily verified the source if it were deemed questionable. The AG also states that it sent the Company a data request asking if it had information that contradicted the AG's information after it reviewed Ms. Langenhorst's Rebuttal Testimony, but the Company did not provide any other information. AG Ex. 5.4. In addition, the AG states that Ms. Langenhorst's statement that the median household income in Illinois has increased 6.11% since 2010 is inaccurate. AG Ex. 5.0 at 10. According to the AG, AG Exhibit 5.4, shows that the median household income in 2010 was \$56,595 and that it was \$56,210 in 2013, which reflects a decrease, not an increase, in median income.

Finally, the AG adds that it is disingenuous for Ms. Langenhorst to characterize Mr. Coppola's proposed 2% base pay increase as an "artificial pay reduction" in comparison to the Company's proposed 4% increase. The AG argues that this is not the

case and that these forecasts are used to set rates. The AG maintains that there is nothing that prevents the Company from shifting budget dollars from other O&M categories, just as any competitive business might do, or even augmenting particular salaries with shareholder dollars to support these wage increases.

In sum, the AG argues that the Commission should adopt Mr. Coppola's proposed adjustment. The AG believes Mr. Coppola's proposed 2% base pay increase factor would adequately reflect wage inflation and keep non-union wage rates at par with others in the labor force.

c. CUB/IIEC Position

CUB/IIEC note that AG witness Coppola challenged the reasonableness of AIC's projected non-union salary and wage increases of 3% and 4%, respectively, during the test year. See Schedule G-5. In reviewing the trend in AIC's non-union base salaries and wages, Mr. Coppola determined that these cost levels have increased at an annual rate between 4.03% and 4.18% for four years from 2011 to 2014 (AG Ex. 2.0 REV. at 7), with 96% to 99% of all non-union employees at AIC and Ameren Services Company ("AMS") routinely receiving merit increases each year averaging 3% (AG Ex. 5.0 at 6). These increases reflect annual merit increases and other base-pay adjustments, such as market pay adjustments, promotions and job reclassifications. *Id.* at 6.

CUB/IIEC were convinced by Mr. Coppola's evidence demonstrating that the escalation of AIC's non-union wage expense is excessive and out of line with national trends. AG Ex. 2.0 REV. at 7. Mr. Coppola recommended capping the wage increases to 2% historical wage increases during the past three years, which is the average of the preceding three years of total compensation Employment Cost Index reported in April 2015 by IHS Economics. *Id.* at 7. CUB/IIEC agree with Mr. Coppola's conclusion that the Company has not sufficiently justified increasing wages at a rate of 4%, twice what the national Employment Cost Index indicates is the national average. CUB/IIEC aver that the Employment Cost Index-Total Compensation of 2% measures total wage increases and is a good indicator of national wage inflation, both historical and prospective. AG Ex. 5.0 at 4.

CUB/IIEC observe that AIC witness Langenhorst claimed that the historical annual increase in salaries and wages and the projected increases in 2015 and in 2016 are reasonable amounts to be included in customer rates, because they are based on market surveys, have been paid consistently in prior years, and help attract and retain qualified employees. See AIC Ex. 31.0 at 18. However, CUB/IIEC point to AG witness Coppola's testimony that, "No significant or unusual turnover in management or non-union ranks has been shown to warrant defining a 4% increase in base pay as 'necessary' to attract, retain and motivate employees." AG Ex. 5.0 at 5. Additionally, in a discovery response, the Company reported that less than 20 employees since 2010 mentioned compensation as an issue. AG Ex. 5.0 at 5-6. Mr. Coppola opined that this is not out of the ordinary. *Id.* CUB/IIEC state that it is also unlikely that employees would leave employment or be less attracted to the Company if it increased base wages at 2% in line with national wage inflation instead of the proposed 4%. *Id.* Furthermore, according to CUB/IIEC, the Company pays generous incentive bonuses to allegedly motivate employees to increase

their performance, which further supports the unreasonableness of the escalation of base pay at twice the rate supported by national wage inflation data.

CUB/IIEC point out that Mr. Coppola suggested that companies often optimistically forecast what they may want merit increases to be in future years, but realities frequently set in and those increases do not actually happen. AG Ex. 5.0 at 5. CUB/IIEC observe that AIC has reported that “. . . actual salary and wage increases for the companies in the surveys during each year 2011 to 2014 are not reported in the surveys.” *Id.* On the other hand, CUB/IIEC reason that the Employment Cost Index-Total Compensation reflects the actual total pay increases, not expectations. *Id.*

CUB/IIEC agree with Mr. Coppola that the Commission should be mindful of the compounding effect that large base pay increases have on the Company’s cost structure and the ultimate pass-through of those costs in higher rates to customers. AG Ex. 5.0 at 11. CUB/IIEC support Mr. Coppola’s proposed adjustment which results in a reduction of approximately \$1.6 million to O&M expense and \$0.8 million to capitalized costs.

d. Commission Analysis and Conclusion

AIC has forecasted for the years 2015 and 2016, non-union salary and wage increases of 3% and 4% respectively. The Company’s test year increase is comprised of a 3% increase for merit pay adjustments and a 1% increase for other pay adjustments such as promotions, job reclassifications, and temporary to regular position changes. AIC explained that its forecast is based on both the Company’s actual non-union wages experience since at least 2011 and market compensation data reported by thousands of companies that AIC competes with for talent.

The AG proposes to cut AIC’s forecasted test year increase in half and cap it, as well as AIC’s 2014 and 2015 increases, at 2%. CUB/IIEC support the AG’s proposal.

The Commission, however, declines to adopt the AG’s proposal. The Commission believes AIC’s forecast is accurate and reliable, and the forecasted non-union salary and wage increases will help facilitate AIC’s ability to continue to attract and retain the talented employees that it needs to provide adequate, efficient, reliable, safe, and least-cost gas service to Illinois customers. The record shows that AIC’s non-union salaries and wages have increased annually between 4.03% and 4.18% for four years from 2011 to 2014. AIC explained that its actual 2011 to 2014 increases reflect the compensation levels that it has historically required to attract and retain its workforce. AIC’s approach has functioned well since there is an absence of significant turnover. Additionally, the record shows that AIC’s test year forecast is consistent with the compensation data reported by the companies that it competes with for skilled employees.

The Commission finds that the record does not support the AG’s proposal. The AG has not explained why it is appropriate to align AIC’s future non-union wage increases with historical national wage inflation. The AG also has failed to address the potential impact of its 2% cap on gas customers—that is, the impact on AIC’s ability to attract and retain the skilled and experienced workforce it needs to serve its gas customers. Further, the Commission concludes that the AG’s proposal is problematic also because it only relies on a single data point (the historical Employment Cost Index, which is a historical wage inflation) and excludes, without explanation, the higher projected figures reported

(all of which were greater than 2%). Unlike AIC's forecast, the AG's proposal does not take into consideration AIC's actual experience and industry market compensation. The Commission finds that these are important considerations and that market pay already accounts for economic factors, such as wage inflation.

Lastly, the Commission notes that it is not unusual that AIC employees are eligible for both merit pay increases and incentive compensation. It is consistent with the Commission's past practice to allow recovery of both. As AIC explained, these different forms of pay reward different things: the latter is earned based on an individual employee's knowledge, skills, and abilities; and the former is earned based on departmental or company-wide performance of defined operational goals.

Based on the reasons discussed above, the Commission finds that AIC's forecasted non-union salary and wage increases are prudent and reasonable. Therefore, the Commission rejects the AG's 2% cap, and approves the 3% and 4% increases in non-union employee salaries and wages that AIC proposes for 2015 and the 2016 test year, respectively.

3. Incentive Compensation Costs

a. AIC Position

AIC asserts that it is well established that an Illinois public utility may recover incentive compensation costs through rates if the costs are related to operational goals that benefit customers. AIC's proposed revenue requirement in this case includes that portion of its forecasted 2016 incentive compensation costs—approximately \$7.9 million—that are tied to performance metrics, or key performance indicators ("KPIs"), that incentivize the achievement of operational goals that benefit AIC's gas customers. AIC states that its incentive compensation plans are the same plans that the Company has used for many years, and that its KPIs are the same as or substantially similar to the KPIs that the Commission approved cost recovery for in all of AIC's gas and electric rate cases since 2011.

AIC points out that the AG did not dispute any of AIC's KPIs, or the related incentive compensation costs, in any of those prior cases. But in this case, the AG asks the Commission to disallow a majority—over \$5.8 million—of AIC's forecasted incentive compensation costs, based merely on AG witness Coppola's apparent preference for some other incentive pay plan design and some other incentive compensation cost recovery standard. AIC explains that Mr. Coppola's preference for something different is not a proper basis for a rate disallowance, however, and that the AG's adjustment lacks foundation in Commission practice and the record evidence.

AIC explains that the Commission's incentive compensation cost recovery standard is well established. A public utility is entitled to recover its prudent and reasonable expenditures to compensate employees. *Madigan*, 2011 IL App (1st) 100654, ¶ 49 (citing *Business and Prof'l People for Pub. Interest*, 146 Ill. 2d at 247; *Villages of Milford*, 20 Ill. 2d at 565). And, when a portion of that compensation is at risk—incentive compensation—recovery also hinges on whether the costs benefit the utility's customers. See, e.g., *North Shore Gas Co.*, Docket Nos. 12-0511/12-0512 (Consol.), Order at 130 (June 18, 2013) ("The Commission has a long-standing policy of allowing incentive

compensation costs when those costs benefit ratepayers.”); Docket Nos. 07-0241/07-0242 (Consol.), Order at 66 (“The main and guiding criterion is that the [incentive compensation] expense be prudent, reasonable and operate in a way to benefit the utility’s customers.”). AIC also explains that generally, the Commission has found that incentive compensation costs related to the achievement of operational goals benefit the utility’s customers; costs related to the achievement of financial goals do not. See, e.g., Docket No. 11-0282, Order at 43; *Ill.-Am. Water Co.*, Docket No. 02-0690, Order at 19 (Aug. 12, 2003). AIC further explains that the Appellate Court has affirmed the Commission’s incentive compensation cost recovery standard. *Madigan*, 2011 IL App (1st) 100654, ¶¶ 51, 55 (affirming the Commission’s customer benefit standard for the recovery of incentive compensation costs). And, in 2010, the legislature codified it for electric performance-based formula rates. See 220 ILCS 5/16-108.5(c)(4)(A) (permitting recovery of incentive compensation expense related to operational goals, but not that related to net income or earnings per share goals).

AIC notes that while incentive compensation costs must be expected to benefit utility customers, specifically quantifying financial benefits to customers of incentive compensation goals is not a prerequisite to cost recovery. Cf. Docket Nos. 07-0241/07-0242 (Consol.), Order at 67 (“Taken together, the goal of the [incentive pay] plan, the large pool of potential awardees and the wide-reaching motivational impact, make it more likely than not, that ratepayers will benefit from the race to excellence.”). AIC explains that the Commission has found that “[w]hether one labels the benefit as a ‘tangible benefit’ or a ‘net benefit’ is immaterial. The bottom line is that ratepayers must receive an overall benefit from an incentive compensation plan if they are to be expected to pay for (a portion of) it.” *Cent. Ill. Light Co.*, Docket Nos. 09-0306 through 09-0311 (Consol.), Order at 83 (Apr. 29, 2010). In fact, AIC points out, the Commission has recognized the difficulty in the quantifying financial benefits of incentive compensation goals. See, e.g., *id.* at 83, 84 (“The difficulty is in discerning the ‘net,’ in other words, it is not always clear that the benefits outweigh the costs. For example, if a safety KPI is met and no injuries have occurred on the job, it is difficult to say at what point the benefits of no injured workers began to outweigh the costs of the safety initiative.”). So, the Commission has rejected positions that would make quantifiable financial customer benefits a prerequisite to incentive compensation cost recovery. See, e.g., *id.*; Docket Nos. 12-0511/12-0512 (Consol.), Order at 130 (approving cost of utilities’ cost control incentive pay metric, and rejecting intervenor position that a showing that “incentive payout under the metric may exceed the ‘savings’ on which they are based” was required).

AIC explains that a portion of all AIC employees’ compensation is contingent on operational performance. AIC states that it uses incentive compensation to attract and retain the skilled workforce that it needs to provide safe, adequate, and reliable gas service to customers, and that it also needs a competent workforce to provide least cost service. AIC argues that experienced employees are more efficient employees, efficiency reduces operating costs, and employee retention reduces the costs of turnover—hiring and training new employees. AIC maintains that to attract and retain the competent workforce that it needs, it must offer competitive compensation, because the companies that AIC competes with for talent offer incentive pay.

AIC states that its incentive pay program is designed to reflect its unique operational goals. Each employee participates in one of four incentive pay plans, depending on their role with the Company: the Executive Incentive Plan for Officers (“EIP-O”), which applies to officers; the Executive Incentive Plan for Directors (“EIP-D”), which applies to the non-officer members of the Ameren Leadership Team; the Ameren Management Incentive Plan (“AMIP”), which applies to non-Ameren Leadership Team and non-bargaining unit represented employees; and the Ameren Incentive Plan (“AIP”), which applies to bargaining unit employees. Each plan focuses the participating employees on the operational goals that they can most impact.

AIC explains that this is accomplished through use of a variety of key performance indicators, or KPIs, that measure and promote achievement of the operational goals that employees can most influence. For example, Customer Service Representatives in AIC’s Customer Contact Centers have an Average Speed of Answer KPI, which measures the time it takes to answer customer calls. Gas Crew Leaders in each of AIC’s Divisions have a Meet Gas Leak Response Objectives KPI, which tracks AIC’s response to customer reports of a gas odor.

AIC states that in addition to focusing employees on the operational goals that they are most able to influence, each KPI is also designed to incentivize continued operational improvement year-over-year. To do this, AIC explains that its business leaders set the specific parameters for each KPI relative to external benchmarks or AIC’s historical performance, as appropriate, defining what a meaningful improvement over that performance would be. AIC believes that if its incentive pay metrics are not sufficiently tied to AIC’s historical performance or fail to establish targets that are achievable, the KPIs will incentivize nothing, and this benefit of incentive compensation would be lost.

AIC explains that its incentive compensation program is also designed so that payouts depend on the achievement of operational goals that benefit AIC’s customers. AIC explains that each KPI promotes and measures the achievement of operational goals related to safety, reliability, customer satisfaction, budget controls, and efficiency and productivity—all goals that, as the Commission has repeatedly found, benefit utility customers. AIC points out that these are also goals that the Illinois legislature has specifically sanctioned cost recovery for in the electric formula rate context. 220 ILCS 5/16-108.5(c)(4)(A) (the electric formula rate shall account for “recovery of incentive compensation expense that is based on the achievement of operational metrics, including metrics related to budget controls, outage duration and frequency, safety, customer service, efficiency and productivity, and environmental compliance”). AIC points out that as the Commission has found before, these metrics benefit utility customers in myriad respects.

AIC maintains that, consistent with the Commission’s well established cost recovery standard, the Company included in its proposed revenue requirement in this case only the estimated incentive compensation costs tied to the achievement of operational goals related to safety, reliability, customer satisfaction, budget controls, and efficiency and productivity. The specific KPIs and their customer benefits are described on AIC Exhibit 28.1. AIC explains that it did not include incentive pay costs tied to the achievement of financial goals. And AIC points out that, with limited exceptions, it has

used the same or similar KPIs for many years. Further, AIC notes that the Commission has approved incentive compensation cost recovery for those KPIs in AIC's recent gas rate cases and in all of its electric formula rate cases. See *generally* Docket Nos. 11-0282, 12-0001, 12-0293, 13-0192, 13-0301, 14-0317 (final orders approving EIP-O, EIP-D, AMIP, and AIP incentive compensation costs).

AIC states that although it has used its incentive pay plans and KPIs for many years, and the Commission has repeatedly approved cost recovery for them, the AG urges the Commission to disallow all but the approximately \$2 million cost of four AIC customer service related KPIs in this case. AIC contends that the AG's proposal would disallow the costs of the remaining safety, customer service, reliability, cost control, and efficiency and productivity AIC and AMS KPIs that the Commission has sanctioned in past rate cases.

AIC asserts that the basis for the AG's position is unclear. AIC states that the AG has failed to provide any evidence to counter the Company's evidence that its incentive pay KPIs incentivize operational goals that provide customer benefits. AIC understands AG witness Coppola's position to boil down to his general dislike of AIC's incentive pay plan structure, specifically the KPIs, and his preference for a different plan structure. AIC argues that Mr. Coppola's preference for another incentive pay design, however, does not mean that the Commission should disallow AIC's incentive pay costs, which are consistent with the Commission's well established cost recovery standard. Further, AIC explains, Mr. Coppola supplied no meaningful basis to adopt his preferred incentive pay plan design.

AIC argues that Mr. Coppola's criticism that AIC has too many KPIs is without merit. AIC states that the number of KPIs does not matter, and that incentive pay plan designs vary. AIC maintains that if, like its plan, an incentive pay plan incentivizes the achievement of operational goals that benefit utility customers, consistent with the Commission's well established cost recovery standard, then, regardless of the plan's specific structure, the related costs should be recoverable. AIC states that its plan design is common, has worked well for AIC for many years, and is best for AIC because it encourages achievements by the employees that can most impact AIC's unique operational goals.

AIC notes that Mr. Coppola also argued that AIC's KPIs (including the AMS KPIs) are simply internal departmental goals that do not benefit AIC's gas customers. But AIC points out that he never explained why the Company's KPIs do not benefit customers and, he never engaged any of the customer benefit evidence provided by AIC in this case that shows that they do. AIC also points out that, despite his preference for something different, Mr. Coppola agrees that improved customer service, safety, and reliability, and a readily available workforce—the very operational goals that AIC's KPIs incentivize—matter to customers in addition to the cost of their utility service. AIC notes that Mr. Coppola also overlooks the fact that the Commission has previously found that such operational goals, and specifically AIC's KPIs, benefit customers.

AIC further responds that, despite Mr. Coppola's insistence that its KPIs are based only on internal goals, the specific parameters for each KPI are established relative to both external benchmarks and AIC's historical performance, and what a meaningful

improvement over that performance would be. Further, AIC maintains, Mr. Coppola's position here fails to recognize that AIC's (including AMS's) KPIs enable efficiencies throughout the entire organization—efficiencies that AIC states reduce or control the operating expenses for AIC gas operations that impact customer rates.

AIC notes that Mr. Coppola also suggested that other KPIs would be preferable to the KPIs that AIC has used for many years. However, AIC points out, Mr. Coppola never explained what exactly his metrics would entail, why they are relevant, or how they provide more benefits to customers than the KPIs that AIC has used, and the Commission has approved, for years. AIC states that Mr. Coppola also never described his preferred metrics, such as the threshold, target, and maximum performance levels. AIC concludes that the basis for Mr. Coppola's preference for different metrics is mere supposition, entirely unsupported by the record evidence.

AIC continues that the AG also asks the Commission to require AIC, in its next rate case, to "provide a cost/benefit analysis providing clear evidence that financial benefits derived from achieving customer-focused performance measures overwhelming exceed the cost of incentive compensation required in rates." AIC believes this standard is also unexplained. AIC notes that, in discovery Mr. Coppola elaborated that "overwhelmingly exceed" means "by a factor of 25%." Yet, he never explained how one could quantify the financial benefits of incentive pay metrics, let alone show that they exceed incentive pay costs by a factor of 25%. AIC states that Mr. Coppola also never explained the basis for his "25%" factor. And the AG never explains whether the cost of its "by a factor of 25%" cost/benefit analysis should be borne by ratepayers.

Moreover, AIC states that the AG never explains why its "by a factor of 25%" standard would be better than the Commission's well established cost recovery standard, or even appropriate. AIC reiterates that the Commission has already recognized the difficulty in the quantifying financial benefits of incentive compensation goals, and it has rejected that as a prerequisite to cost recovery. Further, AIC argues, the AG's "by a factor of 25%" standard would apply a standard to incentive compensation costs far different than that applied to almost all other costs. AIC maintains that, if imposed now, such a drastic departure from the Commission's established standard could trigger the rulemaking requirements of the Act (unless it were unfairly imposed on AIC alone). AIC encourages the Commission to refuse the AG's invitation to abandon its established cost recovery standard.

AIC states that the Commission should also reject the AG's argument that the Commission should defer to other state regulators. AIC argues the orders cited by the AG from other jurisdictions are irrelevant, misinterpreted, and selectively cited. These cases therefore do not provide any basis for the Commission to abandon its well established incentive compensation cost recovery standard.

AIC also challenges the AG's claim that AIC's KPIs do not tie to "matters that are important to AIC's gas customers." AIC argues that the AG not only ignores the record which shows that AIC's KPI's are tied to matters that are important to its gas customers but it also ignores admissions by its witness. Specifically, AIC notes that Mr. Coppola admitted that: (1) cost is not the only matter of importance; (2) a readily available workforce is important; (3) timely service is important; (4) reliable service is important;

and (5) safety is important. AIC states that its KPIs incentivize all of these goals. Additionally, AIC avers that it is well aware of what is important to its gas customers. AIC explains that it relies on research and focus groups, published reports, and information from gas trade associations to keep abreast of what interests gas customers. This information shows that customers care about reliability, superior customer service and satisfaction, and safety. AIC's incentive pay program, therefore, focuses on a variety of operational goals to ensure that all of AIC's gas customer's service needs are met.

AIC notes that the AG also claims that incentive pay metrics are not working because O&M costs increase over time. AIC argues that position is far too simplistic, and has been rejected by the Commission. AIC explains that there are many reasons why O&M budgets fluctuate. Incentive pay metrics, and particularly cost control metrics, reduce or control the costs of service that must be recovered from customers in future rate cases, despite inevitable cost fluctuations. AIC asserts that the Commission has previously rejected the same position Mr. Coppola takes here. See, Docket Nos. 12-0511/12-0512 (Consol.), Order at 129, 130 (rejecting intervenor argument that incentive pay costs should be disallowed because the utilities' "O&M expenses are, in fact, increasing significantly," and finding, "[o]ne of the goals that the Commission encourages public utilities to incentivize through [incentive compensation] plans is the control and reduction of operating costs since . . . this should have the effect, all else being equal, of lowering the costs to be recovered in future rate cases.").

Finally, AIC takes issue with the AG's mischaracterizations of the discovery related to this matter. AIC states that the AG asked AIC in discovery to validate Mr. Coppola's testimony and agree with his summary conclusion that AIC's incentive pay program is not working because AIC's O&M costs have increased. AIC explains that its counsel objected to the AG's data requests on the grounds that they were argumentative, outside the scope of the witness's testimony, irrelevant, vague, overly broad, and unduly burdensome. AIC explains that the AG never questioned these objections, and never revised the data requests. Instead, AIC notes, in brief, the AG improperly characterizes the objections as AIC's witness's failure to respond by stating that: "Mr. Verbest declined to answer the questions, and he also declined to compare the Company's gas distribution rates and customer service levels to that of peer companies in the Midwest." AG Corr. Init. Br. at 29. AIC further notes that in the testimony cited in brief by the AG in support of this statement, Mr. Coppola actually testified that the witness "refused" to respond. AG Ex. 5.0 at 22.

AIC states that the Commission's rules include procedures for obtaining information that is subject to a legal objection i.e. a motion to compel production. See, e.g., 83 Ill. Adm. Code 200.350, 83 Ill. Adm. Code 200.370. Absent such effort, AIC explains, a party cannot claim another failed to provide the requested information. *Ill.-Am. Water Co.*, Docket No. 11-0767, Order at 183 (Sept. 19, 2012) (noting, although Staff complained of the utility's failure to provide information, Staff had not followed established procedures to compel discovery, and rejecting Staff's position). AIC notes that there are a number of ways to properly oppose a legal objection but mischaracterizing it as a witness's refusal to respond is not one of them. AIC concludes that the AG's mischaracterizations should not be condoned.

b. AG Position

The AG notes that AIC is seeking to recover approximately \$7.9 million in total incentive compensation costs, comprised of \$5.9 million for AIC employees and \$2.0 million of cost for AMS employees allocated to AIC. AG Ex. 2.0 REV. at 10. AG witness Coppola observed that nearly all employees of AIC and AMS participate in one of four incentive compensation plans offered by the Company: an Executive Incentive Plan – Officers; an Executive Incentive Plan – Directors; an Ameren Management Incentive Plan; and an Ameren Incentive Plan. *Id.* at 11.

The AG argues that as Mr. Coppola observed, “all four incentive plans are too heavily skewed toward internal operating measures that do not directly benefit gas customers.” AG Ex. 2.0 REV. at 13. The AG states that the KPIs are generally set relative to internal AIC targets or expectations, rather than to peer companies or some independent external performance standard. *Id.* at 13-14. The AG points out that Mr. Coppola also observed that the Company has not shown how the tangible benefits from achieving the KPIs in the four incentive pay plans have exceeded the cost of the incentive pay that AIC seeks to recover in rates. *Id.* at 14.

The AG understands that AIC argues that it uses incentive pay to attract and retain skilled employees and reduce turnover. AIC Ex. 14.0 at 3. Yet the AG notes that, asked in discovery, AIC was unable, without new analysis that it was unwilling to perform, to say how many qualified applicants it received per posted job opening in 2014. AG Cross Ex. 16. The AG argues that if AIC does not have that statistic readily available, it is hard to understand how the Company knows whether incentive pay is attracting a strong pool of applicants to fill its employment positions. The AG suggests that without some sort of tracking metric, the purported talent-attracting benefits of incentive pay seem hard to discern.

According to the AG, the main principle driving Mr. Coppola’s recommended adjustment is that “[w]ithout a direct link to superior performance on matters that are important to AIC’s gas customers, the recovery of such incentive compensation in rates is not justified.” AG Ex. 2.0 REV. at 17. The AG supports Mr. Coppola’s view and, in fact, further agrees in principle with the opinion of AIC witness Verbest that “if a utility’s incentive compensation costs are tied to the achievement of operational metrics that benefit its customers, then the costs should be recoverable” (AIC Ex. 42.0 REV. at 3-4) assuming those metrics are the only predicates for the incentive pay.

The AG notes that Mr. Coppola focused his analysis on the portion of AIC’s proposed \$7.9 million recoverable 2016 incentive pay that is attributable to gas-customer-focused KPIs; from this calculation, he concluded that only \$2,043,015 should be recovered, based on an analysis of each KPI in AIC’s incentive plans, as shown in AG Exhibit 27. The proposed \$2,043,015 of recoverable test-year costs is taken entirely from AIC incentive pay plans; all AMS incentive pay is disallowed under Mr. Coppola’s proposal, for the reasons listed above. According to the AG, the \$2,043,015 breaks down as 72.2% expenses, or \$1,475,057, and 27.8% capital costs, or \$567,958. AG Ex. 2.8.

The AG urges that more generally, as Mr. Coppola recommended in testimony, the Commission should require (in this case and going forward) AIC to clearly

demonstrate that the amount of incentive compensation recoverable in rates is directly related to performance measures that improve customer service and result in competitive rates to gas customers of the utility. AG Ex. 2.0 REV. at 19. The AG further advocates that the Commission should require that, beginning with the next rate case filing, the Company should provide a cost/benefit analysis providing clear evidence that financial benefits derived from achieving customer-focused performance measures overwhelmingly exceed the cost of incentive compensation requested in rates. *Id.* at 19.

The AG notes that AIC witness Verbest attempted to show in his Rebuttal Testimony that the KPIs in AIC's incentive plans are aligned with customer benefits. The AG states that in theory, goals like improved worker safety, tighter budget controls, and stronger efficiency could bring down O&M expense. The AG asserts that when asked to explain whether AIC's O&M expenses have increased or decreased since 2011 or have increased at or below the rate of inflation, Mr. Verbest declined to answer the questions, and he also declined to compare the Company's gas distribution rates and customer service levels to that of peer companies in the Midwest. AG Ex. 5.0 at 22; AG Ex. 5.8. The AG contends that as Mr. Coppola showed in his Direct Testimony, AIC's O&M expenses have increased since 2011 at a rate much higher than inflation. AG Ex. 2.0 REV. at 56. The AG alleges that in light of AIC's poor cost control performance, it is hard to see how any of the KPIs that purportedly have the effect of reducing O&M costs have provided a gross benefit to customers, let alone a net benefit after considering the cost of the related incentive pay.

The AG argues that while Mr. Verbest stated in his Surrebuttal Testimony that the KPIs in AIC's incentive pay plans "drive improved customer service and increased operational efficiencies that reduce or control the costs ultimately recovered from customers through gas rates" (*id.* at 4), the evidence he presented does not support this assertion. The AG argues that an analysis of the KPIs listed in Mr. Verbest's testimony, AIC Exhibit 28.1, shows that the connection to customer benefits for most of them is tenuous or nonexistent. The AG admits that some of the KPIs directly reference customer benefits like call center response times and gas leak response times – but the AG maintains that Mr. Coppola's disallowance proposal carefully separated those KPIs that benefit customers and preserved recovery of the associated incentive payouts.

The AG observes that customer benefit has historically been a necessary condition for recovery of incentive compensation expense by utilities in Illinois. For example, in Docket No. 05-0597, an electric delivery rate case of ComEd, the Commission found that 50% of ComEd's test-year incentive compensation expense was based on the earnings per share of ComEd's parent company and thus not recoverable. The AG notes that the Appellate Court upheld that disallowance by the Commission, holding that "the Commission could have reasonably concluded that the earnings-per-share portion of the plan provided only a tangential benefit to ratepayers." *Commonwealth Edison Co. v. Ill. Commerce Comm'n*, 398 Ill.App.3d 510, 552 (2d Dist. 2009). The AG further notes that in Docket Nos. 07-0241/07-0242 (Consol.), the Commission referred to "the cost saving or other direct ratepayer benefit that we require" for recovery of incentive pay expense. The AG suggests that it is obvious that "cost saving" attributable to incentive pay must be net of the incentive pay expense included in rates – otherwise there would be no benefit

to ratepayers at all from the incentive pay program; an incentive pay program worth \$1 million that saved ratepayers \$100 in operating costs would entail no “cost saving” to them, for example. The AG also points to Docket Nos. 09-0306 through 09-0311 (Consol.), in which the Commission stated its standard as “[i]f no net benefit is realized by ratepayers upon the attainment of the plan goal, there is no reason for ratepayers to contribute funds encouraging [utility] employees to reach that goal.”

The AG states that the requirement of customer benefit is echoed in numerous other states’ utility jurisprudence, and the Commission should not be reluctant to take a cue from those other jurisdictions. The AG asserts that many regulatory commissions have set very high standards for inclusion of incentive compensation in rates, and often do not allow recovery of all or most of the incentive pay costs because utilities fail to demonstrate that customer benefits exceed the costs. According to the AG, such decisions have been made by commissions in Michigan, Florida, Missouri, Massachusetts, New York, Connecticut, and Arkansas.

In conclusion, the AG urges the Commission to apply its long-standing standards for recovery of incentive compensation expense in this proceeding. Consistent with AG witness Coppola’s recommendations, the AG asks the Commission to disallow all but \$2.043 million of AIC’s proposed incentive compensation expense for the test year, a reduction of around \$5.83 million.

c. Commission Analysis and Conclusion

The Commission finds that AIC’s forecasted incentive compensation costs are reasonable and supported by the record evidence. The Commission’s incentive compensation cost recovery standard is well established. Recovery of prudent and reasonable incentive compensation expenses is permissible through rates if the costs are related to operational goals that benefit customers. Incentive compensation costs based on financial performance that primarily benefit shareholders are not recoverable.

The record shows that AIC’s forecasted 2016 incentive compensation costs are tied to performance metrics or KPIs that incentivize the achievement of operational goals that benefit AIC’s gas customers. AIC has shown that its incentive pay program is designed to reflect its operational goals. Each of AIC’s KPIs appear to promote and measure the achievement of operational goals related to safety, reliability, customer satisfaction, budget controls, and efficiency and productivity. AIC Ex. 28.1. AIC correctly points out that these are all goals that the Commission has consistently found benefit utility customers and these goals were specifically sanctioned for cost recovery recently by the Illinois legislature in the electric formula rate context with the enactment of Section 16-108.5(c)(4)(A) of the Act in 2010.

The AG has failed to refute AIC’s evidence that its KPIs incentivize operational goals that provide customer benefits. As AIC notes, the Company has used the same plans for many years and its KPIs are the same or substantially similar to the KPIs approved by the Commission for costs recovery in all of AIC’s gas and electric rate cases since 2011. The AG suggest that other KPIs should be used but it fails to provide a sufficient description of its preferred metrics and why they would provide more benefits to

customers than the KPIs that AIC has used and the Commission has approved in the past.

The Commission also declines to adopt the AG's recommendation that the Commission require that, beginning with AIC's next rate case filing, the Company provide a cost/benefit analysis providing clear evidence that financial benefits derived from achieving customer-focused performance measures overwhelmingly exceed the cost of compensation requested in rates. The Commission notes that AG witness Coppola explained that "overwhelmingly exceed" means by a factor of 25%. Mr. Coppola, however, did not provide an explanation of how the financial benefits of incentive pay metrics could be quantified, how it could be determined that they exceed incentive pay costs by a factor of 25%, or even the basis for his proposed 25% factor. Moreover, the Commission recognizes, as it has in past rate cases, the difficulty in quantifying financial benefits to customers from achievement of customer-focused operational goals. In Docket Nos. 09-0306 through 09-0311 (Consol.), the Commission stated:

... it is true that the Commission requires a finding that incentive compensation programs are beneficial to ratepayers before they can be reflected in rates. Whether one labels the benefit as a "tangible benefit" or a "net benefit" is immaterial. The bottom line is that ratepayers must receive an overall benefit from an incentive compensation plan if they are to be expected to pay for (a portion of) it. If no net benefit is realized by ratepayers upon the attainment of the plan goal, there is no reason for ratepayers to contribute funds encouraging AIU's employees to reach that goal. The difficulty is in discerning the "net," in other words, it is not always clear that the benefits outweigh the costs. For example, if a safety KPI is met and no injuries have occurred on the job, it is difficult to say at what point the benefits of no injured workers began to outweigh the costs of the safety initiative.

Docket Nos. 09-0306 through 09-0311 (Consol.), Order at 83. The Commission believes the burden and cost of the type of cost/benefit analysis recommend by the AG will likely outweigh its value given the difficulty in assessing the financial benefits. Further, the Commission continues to believe that such an analysis is not a prerequisite to incentive compensation cost recovery. It is the Commission's position that if the record evidence shows that incentive compensation costs requested for recovery through rates are prudent, reasonable, and based on the achievement of operational metrics that can reasonably be expected to provide overall benefits to customers, then those incentive compensation costs should be recoverable.

The record evidence shows that AIC has not requested recovery in this case for any incentive compensation costs tied to financial goals. AIC has described each of the KPIs underlying its incentive pay program, and has explained the customer benefit each is intended to provide. The record also contains evidence of the specific metrics for achievement of each KPI at the threshold, target, and maximum payout levels.

In conclusion, the Commission has approved incentive compensation cost recovery for AIC related to the same incentive pay plans and the same or substantially similar KPIs in all of AIC's gas and electric cases since 2011. The AG appears to suggest a different cost recovery standard should be used, however, the AG's recommended standard is unclear. Nevertheless, the AG has not provided a persuasive reason to depart from the Commission's well established incentive compensation recovery standard, which the Appellate Court has approved. The Commission finds that the record evidence reflects the benefits of AIC's incentive pay program and KPIs to its customers. In addition, the Commission finds that the AG has failed to support its argument that a different incentive pay program design and costs recovery standard should be used.

Accordingly, the Commission declines to adopt the AG's proposed disallowance and its recommendation that the Commission require AIC, beginning with its next rate case filing, to provide a cost/benefit analysis.

4. Qualified Pension and Other Post-Employment Benefit Costs

a. AIC Position

AIC states that its test year level of pension and other post-employment benefits ("OPEB") expense is based on an actuarial forecast, and follows accounting standards. AIC asserts that the Commission has relied on forecasts developed in the same manner to set AIC's pension and OPEB expense in all prior future test year cases. See *e.g.*, Docket No. 13-0192, Order at 21.

AIC explains that it measures pension and OPEB costs annually, in an actuarial process that accounts for the value of existing plan assets, the conditions of the financial markets, and data regarding the age and employment status of AIC employees. To calculate the pension and OPEB costs for which AIC seeks recovery in this case, AIC provided its actuarial consultant, Towers Watson, with census data regarding all active and terminated employees, and all retirees. Actuaries selected assumptions regarding asset returns and interest rates, as well as other financial market conditions, and assumptions regarding the mortality, termination and retirement rates of plan participants. AIC states that its actuaries conducted hundreds of thousands of calculations, related to thousands of active and inactive participants in pension and OPEB plans, based on information and assumptions to calculate AIC's annual pension and OPEB expense. The results of the actuaries' calculations were then audited by a third-party for compliance with accounting standards. AIC explains that it then utilized the results of this actuarial calculation as its test year levels of pension and OPEB expense.

AIC notes that AG witness Coppola has proposed an adjustment to replace AIC's 2016 forecasted amount of pension and OPEB costs with an amount based on an estimate of pension and OPEB costs in years after 2016. The stated basis for this proposal is the supposition that AIC "may have delayed the timing of when historical asset gains were recognized in order to benefit those years after the 2016 test year." AG Ex. 2.0 REV. at 21. AIC argues that not only is this supposition entirely unsupported by evidence, but also that the AG's calculation of its proposed adjustment has various errors. The Company further argues that the AG's proposed remedy violates the Commission's test year rules and the prohibition against single-issue ratemaking.

AIC asserts that the record does not support Mr. Coppola's adjustment, and that the sole basis for his proposal, that AIC was somehow shifting recognition of pension plan asset gains to future years, was refuted by AIC's pension expert, which AIC maintains Mr. Coppola never disputed.

AIC asserts that the AG's proposed adjustment to pension and OPEB expense is based only on: (i) AG witness Coppola's observation that pension and OPEB costs are forecasted to decline after 2016; and (ii) AIC's alleged "refus[al] to provide" calculations of expense in years after the 2016 test year. AIC argues that Mr. Coppola provided no factual support for his claim that the Company may have delayed the timing of when historical asset gains were recognized and merely suggested that AIC had acted improperly. AIC argues that this cannot be a basis for an adjustment, as AIC has properly recognized historical asset gains in its pension and OPEB expense, in accordance with generally accepted accounting principles ("GAAP") accounting standards and consistent with AIC's longstanding practice. In addition, AIC argues, reaching forward past 2016 to capture declines to test year expenses violates the Commission's test year rules, and the AG's allegations that AIC "refused" to provide information are mischaracterizations (or a misunderstanding of the Commission's rules of procedure), since AIC provided appropriate legal objections to the cited data requests, and the AG never sought to compel production of the information.

AIC notes that Mr. Coppola implied that AIC has some discretion to choose when to recognize historical gains in pension and OPEB assets. AIC disputed this, stating that accounting standards and rules strictly govern recognition of asset gains in calculating pension and OPEB costs. AIC maintains that its determinations of pension and OPEB expense follow these accounting standards consistently from year to year—they do not change, and AIC has not delayed the timing of historical asset gains.

AIC explains that it accounts for historical asset gains (and losses) in accordance with GAAP rules, using a two-step process. First, asset gains and losses become subject to amortization into annual pension and OPEB expense over a period of four years. Second, once a gain or loss is subject to amortization, it is amortized on a straight-line basis over ten years.

AIC further explains that this method of accounting for asset gains remains consistent from year to year, and has been used in all years since AIC's predecessors were acquired by AIC. AIC points to the 2008-2009 economic downturn, when AIC's pension and OPEB plans suffered asset losses, which affected the calculation of pension and OPEB cost. AIC notes that these losses were nevertheless smoothed into the calculation of cost over four years under AIC's consistently applied accounting method. AIC states that it did not ask to increase the amount of pension and OPEB cost in rates when it forecast that its pension and OPEB costs would increase, because that was not consistent with how pension and OPEB cost is determined under GAAP.

AIC states that its pension and OPEB plans experienced an asset gain in 2014. AIC states that it used the two-step process described above to recognize that gain, in the same manner it has recognized every other asset gain and loss in its pension and OPEB assets. It did not alter its accounting methods, or make any other change in its calculations, and it did not delay the recognition of that asset gain in any way. AIC states

that its treatment of asset gains in pension and OPEB assets is consistent with its longstanding practices. AIC notes that Mr. Coppola did not challenge or take issue with AIC's method of accounting. Moreover, he did not even address AIC's procedures for recognition of asset gains and losses.

AIC argues that while its calculation of pension and OPEB costs follow GAAP rules and is consistent from year to year, the AG's proposed adjustment is riddled with inaccuracies and inconsistencies.

AIC notes that Mr. Coppola calculated his proposed adjustment to OPEB costs utilizing an average of each of the four years 2016, 2017, 2018 and 2019, but his adjustment to pension costs utilizes an average of only three years—2017, 2018 and 2019. AIC notes that it pointed out this inconsistency in rebuttal, but Mr. Coppola did not respond.

AIC next notes that Mr. Coppola proposed an adjustment to AIC OPEB costs, but did not propose any adjustment to the portion of AMS OPEB costs that are allocated to AIC. AIC witness Stafford opined that this was not merely oversight, since the AMS OPEB costs are forecasted to increase after 2016, unlike pension costs or the AIC OPEB costs. AIC asserts that this inconsistency was never explained in Mr. Coppola's testimony.

AIC also notes that Mr. Coppola applied his proposed adjustment to total AMS pension costs, rather than the portion of AMS pension costs that are allocated to AIC, another inconsistency AIC states was never explained.

AIC disagrees with Mr. Coppola's response that AIC's testimony noting these flaws amounted to "only criticism," and should be "give[n] no weight." AG Ex. 5.0 at 32. AIC asks that the Commission seriously consider these defects. The Company asserts that the gravity of Mr. Coppola's allegations that AIC had purposefully altered the recognition of pension and OPEB asset gains stands in stark contrast to the flippancy with which he dismissed AIC's concern for inaccuracies in the calculation of his adjustment. AIC further notes that the AG did not respond to AIC's testimony regarding the inconsistencies and errors in the calculation of the AG's adjustment. Instead of offering a corrected calculation, or explaining why no correction is necessary, the AG described AIC's testimony regarding the errors as a "strawman argument." But, in the absence of a correction or explanation, AIC argues that the AG has apparently conceded that the AG's calculations are inconsistent.

AIC contends that, although the utility bears the burden of proof to support its proposed rate increase, parties proposing adjustments bear the burden of supporting their recommendations. *Chicago v. Ill. Commerce Comm'n*, 133 Ill. App. 3d 435, 442-43 (1st Dist. 1985). AIC argues that parties cannot simply propose arbitrary adjustments without supporting them, and states that the AG has not supported its position.

AIC argues that its test-year level of pension and OPEB expense is reasonable, and contends that the AG has not shown otherwise. AIC notes that the AG argues AIC failed to explain the decline in pension and OPEB costs after 2016. But AIC explained that the decline results from the process of recognizing historical asset gains, and explained how such historical asset gains are recognized through amortization into pension expense.

AIC believes the AG's criticism seems to be that AIC's forecasted 2016 expense levels will exceed the expense levels forecasted in 2017, 2018 and 2019, so rates in those years would be somehow unreasonable. However, AIC argues that the fact that pension and OPEB expenses are forecasted to decline after the test year has no bearing whatsoever on the reasonableness of the forecasted expense during the test year, which is the question for the Commission in this case. And AIC notes pension expense was significantly higher in 2014 and 2015 than in the test year, yet the AG makes no effort to account for this.

AIC argues that the AG cannot show AIC's rates would be unreasonable after the 2016 test year, because the AG ignores all other expenses in the 2017-2019 period, some of which will increase significantly. For example, wages and salaries expense is forecasted to increase during the 2017-2019 period, as the AG must acknowledge, in light of its position regarding those expenses. AIC contends that, in order to show AIC's rates in 2017-2019 would be unreasonable if AIC's proposed pension and OPEB expense was adopted, the AG would have to capture changes in all of AIC's expenses and revenues in that period to show that revenues exceed expenses. In short, AIC states, some other test year would be required. But AIC notes the AG focuses only on pension and OPEB expenses, and has not proposed to match those expenses against any other components of expense or revenue in the 2017-2019 period.

In addition, AIC contends, it would be unreasonable to normalize or average AIC's pension and OPEB expenses in the way the AG has proposed. Leaving aside the calculation errors and test year violations discussed above, AIC states the AG's proposal would not allow AIC to recover its forecasted 2016 pension and OPEB expense during 2016. For this reason, AIC argues, the Commission should reject the adjustment. AIC notes the Commission has rejected a similar proposal to normalize or average pension and OPEB expenses over time, because it would not allow the utility to recover its actual expense in the test year.

AIC contends the AG's adjustment has no basis in the record. AIC states that, as an excuse for the lack of record basis for its position, the AG claims AIC has refused to provide specific calculations of pension and OPEB expense in years after the test year. The implication is that the AG would somehow be able to prove the cherry-picking it contends occurred if the specific calculations had been turned over. AIC argues that the AG's contentions are disingenuous and should be disregarded.

First, AIC notes, the AG complains that AIC did not provide calculations of how these expenses were calculated for each year 2017-2019. But AIC explains that AIC and the AG agree that information related to periods after the close of the 2016 test year are irrelevant. In response to data requests issued by AIC on another topic, the AG stated, "information after the 2016 test year ... is irrelevant and inadmissible." AIC argues that the AG has not explained, in testimony or in brief, why post-test year data is relevant to the pension and OPEB expense issue but not to other issues.

Second, AIC states the data requests the AG cites in support of its contention that AIC "refused to provide" information contain proper legal objections to the relevancy of the data. AIC argues that, if the AG disagreed with AIC's position that the post-test year data is irrelevant (although the AG made the same objection itself), or otherwise

disagreed with an objection, Commission Rules provide a process to resolve discovery disputes. 83 Ill. Adm. Code 200.350 (requiring consultation among parties and “reasonable attempts to resolve differences” regarding discovery); 200.370 (permitting hearing examiners to supervise discovery); 200.420 (outlining remedies for failure to comply with discovery orders). AIC notes the AG did not file any motions seeking production of post-test year data, or to compel formal discovery of that data. AIC argues, absent an effort to follow the established discovery procedure or compel the production of information, the AG cannot claim that AIC “refused” to provide information.

Third, AIC states the AG ignores the significant data that AIC did provide, including the information summarized above. AIC states the AG also ignores AIC’s testimony that the information AIC provided to the AG is the same information AIC provided to third-party auditors charged with determining AIC’s compliance with accounting standards. In light of AIC’s extensive provision of information related to its test year pension and OPEB expense, AIC argues there is no basis for the AG to state that AIC refused to provide information, or explain its test year expense.

AIC asserts the AG has cited nothing in support of its contention that AIC “cherry-picked” pension and OPEB expense, apart from the fact that AIC’s expense will decline after the test year, and AIC’s objection to the relevance of post-test year data. AIC states the Commission should see the AG’s contentions regarding AIC’s “refus[al] to provide” post-test year information for what they are: attempts to obscure the fact that the AG’s position has no basis in the record.

AIC argues that even if there was a basis in the record for Mr. Coppola’s adjustment, it must still be rejected as violating the Commission’s test year rules, and, as discussed below, the rule against single-issue ratemaking.

AIC explains that the Commission’s Rules require that a utility’s request for a rate increase be based upon revenues and expenses over the course of a single calendar year—the test year. See 83 Ill. Adm. Code 287.20; see also *Business and Prof’l People for Pub. Interest*, 136 Ill. 2d at 219 (discussing the basis and appropriateness of a one-year test year); *Business and Prof’l People for Pub. Interest*, 146 Ill. 2d at 238 (holding the Commission committed reversible error by failing to abide by its own test year rules). The purpose of the test year is to prevent mismatching between expenses and revenues, so as to over-state or under-state the utility’s need for a rate increase. *A. Finkl & Sons v. Ill. Commerce Comm’n*, 250 Ill. App. 3d 317, 330 (1st Dist. 1993); see also *Commonwealth Edison Co.*, Docket No. 05-0597, Order (July 26, 2006) (holding that an AG proposal to include costs incurred after the close of the test year would violate test year principles because it would “inappropriately bring the test year into the future for [the adjusted item]”). AIC claims the AG fully recognizes the importance and vitality of these rules, as it has objected to data requests propounded by AIC (on another topic) on the grounds that “information after the 2016 test year ... is irrelevant and inadmissible.”

AIC emphasizes that the utility may choose an historical or future test year, but the test year is always restricted to a period of 12 consecutive months. *A. Finkl & Sons*, 250 Ill. App. 3d at 330. If the utility chooses a future test year, as AIC did in this case, the Rules restrict the utility to “any consecutive 12 month period of forecasted data beginning

no earlier than the date new tariffs are filed and ending no later than 24 months after the date new tariffs are filed.” 83 Ill. Adm. Code 287.20(b). AIC notes that it filed the tariffs initiating this proceeding on January 23, 2015 and that it chose the twelve months of calendar year 2016 as its test year.

AIC argues that Mr. Coppola’s proposed adjustments violate the Commission’s test year rule because they utilize cost levels that occur after the test year and costs that occur more than 24 months after tariffs were filed. AIC notes that its test year concludes on December 31, 2016. The Company points out that the AG’s proposed adjustment to pension and OPEB expenses is based on costs that are forecasted to occur beginning on January 1, 2017 and continuing through December 31, 2019, which undisputedly means that the AG’s proposed adjustment will match the 2016 test year against costs that occur after the close of the test year on December 31, 2016. AIC argues that this is a violation of the Commission’s test year rules.

AIC states that the AG’s adjustment to reduce the test year pension and OPEB expenses also utilizes costs incurred more than 24 months after AIC filed the tariffs that initiated this proceeding. AIC notes that it filed the tariffs that initiated this proceeding on January 23, 2015. Under Rule 287.20, the test year must conclude by January 23, 2017. *Id.* However, the Company points out that the AG’s adjustments to AIC and AMS pension costs reach well beyond that date—to December 2019. Therefore, AIC argues, the AG’s adjustment violates the requirement that a test year “end no later than 24 months after the date new tariffs are filed.” 83 Ill. Adm. Code 287.20(b).

AIC notes that Mr. Coppola acknowledged AIC witness Stafford’s concern that the AG’s proposal would violate the test year rules by mismatching costs and revenues from different time periods, but AIC notes that Mr. Coppola offered no explanation of how his proposal might comply with the Commission’s Rules. Instead, AIC points out, Mr. Coppola dismissed Mr. Stafford’s testimony as “uninformative.”

AIC states that there is another legal flaw in the AG’s proposed adjustment to pension and OPEB expenses, namely that it fails to account for other changes to the revenue requirement and so also violates the rule against single-issue ratemaking.

AIC explains that the rule against single-issue ratemaking prohibits consideration of any change in a particular portion of a utility’s revenue requirement in isolation. *Commonwealth Edison Co. v. Ill. Commerce Comm’n*, 405 Ill. App. 389, 410-411 (2d Dist. 2010). Instead, the Commission “must examine all the elements of the revenue formula to determine their interaction and the impact any change in one element will have on the utility’s revenue requirement.” *People ex rel. Madigan v. Ill. Commerce Comm’n*, 2015 IL 116005 ¶ 36. AIC states that this holistic review is necessary because a change in one component of the revenue requirement may result in offsetting changes in other corresponding components, resulting in overstatement or understatement of the revenue requirement. *Id.*; see also *Business and Prof’l People for the Pub. Interest*, 146 Ill. 2d at 244.

AIC asserts that in this case Mr. Coppola proposed to reduce the amount of test year pension and OPEB expense to reflect changes in the level of those expenses in

calendar years 2017, 2018 and 2019. However, AIC argues that Mr. Coppola has not incorporated into his analysis any changes in other elements of the revenue requirement that may occur during 2017, 2018 or 2019. The Company also claims that Mr. Coppola has not proposed that any costs or revenues that increase after calendar year 2016 be considered in calculating AIC's revenue requirement in this case. Thus, AIC argues, Mr. Coppola's proposed adjustment to pension and OPEB expense constitutes single-issue ratemaking, and must be rejected.

b. AG Position

The AG notes that the Company included in its rate filing approximately \$8,422,898 of AIC and AMS pension costs and \$647,915 of AIC and AMS OPEB expense, also referred to as FAS 106 expense, for recovery in gas rates. These amounts represent an allocation to the gas business of the total Company's 2016 pension and OPEB costs of \$32.5 million and \$2.5 million, respectively. The AG argues, however, that the accuracy of the Company's 2016 forecast, which is intended to reflect representative expense levels going forward for the period rates will be in effect, is suspect. According to the AG, after multiple data requests on this matter, the Company ultimately provided schedules derived from actuarial reports which show that subsequent to 2016, pension and OPEB costs decline significantly for both AIC and AMS. AG Ex. 2.0 at 20.

The AG states that those amounts, which are included in the confidential version of the AG's Initial Brief, show that pension costs for AMS employees drop significantly in 2016 through 2019. Pension costs for AIC employees also drop significantly over this same time period. Additionally, OPEB costs for AIC fall even more dramatically. AG Ex. 2.0 REV. at 20. The AG claims that the result, as calculated in AG 2.10 REV., is an actual forecasted significant reduction in pension and OPEB expense over the 2017-2019 time period, as compared to the forecasted amounts AIC requests for the test year revenue requirement. See AG Ex. 2.10 REV.

The AG asserts that despite repeated requests that the Company explain this anomaly between the test year forecast and the Company's own forecasted immediate future, the Company failed to detail the reasons for the significant decline in these costs after 2016, other than to state that "...the plan is in the process of recognizing historical asset gains into the calculation of expense". The AG mentions that the Company also stated that "This is a factor which helps drive the 2017 expense to be lower than the 2016 expense." AG Ex. 2.0 REV. at 20-21.

The AG argues that this explanation does not satisfy the Company's burden under Section 9-201 of the Act of proving the justness and reasonableness of its requested expenses. 220 ILCS 5/9-201. The AG notes that the significant decline in costs post-2016 raises questions concerning the reasonableness of the pension and OPEB costs that the Company has included in the forecasted test year. It is the AG's position that permitting AIC to recover the forecasted 2016 amounts, when the evidence shows these expenses will drop precipitously after the test year, suggests a form of cherry-picking of the test year level of pension and OPEB expense that should be rejected by the Commission.

The AG states that based on the limited information provided by the Company, AG witness Coppola proposed the following adjustments to AIC's test year pension/OPEB costs:

1. Reduce 2016 pension costs for AIC by 26%. This percent represents the average decline in pension cost during the 2017-2019 period versus the amount proposed by the Company for the 2016 test year.
2. Reduce 2016 pension costs for AMS by 52%. This percent also represents the average decline in pension cost during the 2017-2019 period versus the amount proposed by the Company for 2016.
3. Reduce the 2016 OPEB costs for AIC from \$2.5 million to a negative amount of \$7.2 million. This amount represents the average of the positive and negative OPEB costs for the four years from 2016 to 2019.

AG Ex. 2.0 REV. at 21-22. AG Exhibit 2.10 REV. reflects the changes listed above which result in a reduction of \$4.1 million to O&M expense and \$2.8 million for capital additions.

The AG observes that AIC witness Lynn challenged Mr. Coppola's proposed adjustment and described how the Company followed consistent application of U.S. GAAP in calculating those expenses for 2016 and future years. AIC Ex. 29.0 at 4-7. But this testimony misses the point and simply discusses in general terms certain procedures and approaches utilized to calculate pension and OPEB costs and the components that are part of those calculations, according to the AG. The AG notes that Mr. Coppola pointed out that Mr. Lynn did not provide any specific calculations of how the 2016 pension and OPEB expense were determined, or the 2017 through 2019 forecasted expense amounts. He further provided no explanation of why these expenses decline after 2016, and in some cases become negative, which the AG asserts was the key point of Mr. Coppola's Direct Testimony and proposed adjustment of these expenses. AG Ex. 5.0 at 30.

According to the AG, after the filing of AIC's Rebuttal Testimony, it again requested that the Company provide very specific information about the calculation of the pension and OPEB costs for 2016 through 2019 in various data requests. AG Exhibit 5.11 includes some of the data requests and Company responses. Although the Company provided some detailed components, it did not provide the specific calculations of how the 2016 pension and OPEB expense was determined. The AG states that the Company also refused to provide the calculations of how these expenses were calculated for each year 2017-2019. Most importantly, the AG asserts that the Company refused to explain why pension and OPEB costs varied each year and, in some instances, turned negative from 2016 to 2019. The AG also asserts that while the Company provided the actual asset and liabilities gain and losses from 2008 to 2014, it did not provide the amounts that it forecasted would be amortized in 2016 and future years. AG Ex. 5.0 at 30. Simply put, the AG claims that the Company has not adequately rebutted Mr. Coppola's recommendation, and has not conclusively demonstrated that the forecasted pension and OPEB costs included in the 2016 revenue requirement are accurate, supported by valid data and calculations, and reasonable.

The AG challenges AIC's claim that the AG-proposed adjustment violates the test year rules. AIC asserts that the adjustment to reduce the test year pension/OPEB expenses "also utilize costs incurred more than 24 months after AIC filed the tariffs that initiated this proceeding," in violation of the requirement that a test year "end no later than 24 months after the date new tariffs are filed." 83 Ill. Adm. Code 287.20(b). The AG submits that AIC's argument finds no support in either Part 285 or Part 287 of the Commission's rules, which detail the requirements and expectations of utility forecasts for future test years and pro forma adjustments to those forecasts. See 83 Ill. Adm. Code §§285, 287. The cited provision does not prevent Commission evaluation of future information impacting expenses for the period rates will likely be in effect. The AG contends that AIC's position also perverts the cause of ratemaking, by suggesting that every forecasted expense item included in a future test year cannot be tested for reasonableness by examining events or circumstances we know to be true (in this instance, considerably lower pension expense amounts in the near term), in order to ensure that the expense level recorded reasonably reflects actual conditions going forward. According to the AG, AIC's argument essentially suggests that the Commission has no means, other than historical data, to test future test year projections.

Additionally, the AG states that AIC's citation to case law that discusses the mismatch of expenses and revenues from different time periods is inapposite here. Mr. Coppola's proposed adjustment examines the reasonableness of one expense based on limited factual data provided by the Company that suggests an inordinately high level of expense amount for a test year forecast. It is not, as those citations reference, an attempt to mismatch "expenses and revenues" so as to over- or under-state a utility's revenue requirement. The AG states that instead it is an attempt to normalize the expense for the period rates will be in effect – a basic accounting precept and requirement of any attempt to set just and reasonable rates.

Moreover, the AG takes issue with AIC's citation to a 2005 Commission Order that rejected an AG-proposed adjustment to reflect the accumulated reserve for depreciation in pro forma plant additions to rate base as support for their criticisms of Mr. Coppola's adjustment. In fact, the AG points out, the Illinois Appellate Court ruled in a 2009 AG appeal of another ComEd case that such an adjustment was entirely consistent with test year rules and the Act. See *Commonwealth Edison Co. v. Ill. Commerce Comm'n*, 405 Ill. App. 3d 389, 405-407 (1st Dist. 2010). In doing so, the Court specifically rejected ComEd's citation to the very same case AIC now cites to as "settled precedent" on that particular accounting issue. *ComEd*, 405 Ill. App. 3d at 408.

The AG also criticizes the Company's assertion that the AG-proposed pension/OPEB expense adjustment constitutes unlawful single-issue ratemaking. While AIC correctly cites the case law regarding this ratemaking precept, the AG argues, the Company misapplies it to the facts at hand. For example, the AG notes that the Company argues that Mr. Coppola failed to examine 2017-2019 occurrences for other expense items, and therefore created a single-issue ratemaking exception. According to the AG, this analogy to the single-issue ratemaking prohibition is inapt. The AG contends that Mr. Coppola made this adjustment because, given the extraordinary drop in pension/OPEB expense level, as presented in Company data, compared with the amount forecasted for

the test year, an adjustment was in order to ensure that customers are not paying inflated rates and that this particular expense is normalized for the period of time rates are in effect.

The AG asserts that the Company's attempt to question the accuracy of Mr. Coppola's adjustment to pension and OPEB expense ignores the larger point at issue. Moreover, the AG states that AIC has offered no supporting calculations or additional information to reconcile the forecasted test year pension and OPEB amounts with the significant decline of these same expenses beginning just one year after rates take effect. The AG avers that AIC's proposal invites the Commission to incorporate indefinitely into rates expense amounts that the Company admits will no longer exist (including expense forecasts that are negative in amount) one year after rates take effect. The AG notes that AIC was unable, on several occasions, to offer an explanation as to why AIC customers should be required to pay forecasted expense amounts indefinitely in rates that greatly exceed forecasted expense levels. Despite AIC's efforts to criticize the methodology employed by Mr. Coppola in calculating his adjustments to pension and OPEB expense, AIC failed to explain the larger point: how the test year forecast of these expenses could be justified in light of the dramatic drop in these costs beginning in 2017.

The AG argues that the Commission should disregard AIC's testimony on this matter as being in error and uninformative, and adopt the AG-recommended adjustment of \$4.1 million to O&M expense and \$2.8 million for capital additions associated with AIC and AMS pension and OPEB expense.

c. Commission Analysis and Conclusion

The Commission disagrees with the AG and finds that AIC has provided sufficient support for its 2016 test year pension and OPEB expense. The record shows that AIC has calculated this expense based on an actuarial forecast as it has before in prior cases. The Commission understands that these calculations were audited by a third party to ensure compliance with accounting standards.

The Commission concurs with AIC that the AG's claim that the Company's forecasted expense should be adjusted because AIC may have delayed the recognition of historical asset gains until after the test year is unsupported by the record. AIC explained that accounting standards and rules strictly govern recognition of asset gains in calculating pension and OPEB costs, thus the Company does not have discretion to choose when to recognize historical gains in pension and OPEB assets. The evidence shows that AIC used an established method to recognize historical asset gains and losses and that it calculated its pension and OPEB expense in a consistent manner from year to year. Moreover, the AG failed to provide any evidence that AIC altered the calculation methodology in this case.

Additionally, the Commission finds that the AG's proposed adjustment violates the Commission's test year rules and the prohibition against single-issue ratemaking. The Commission's test year rules require that expenses be matched against revenues within a single twelve-month period. Further, the rule against single-issue ratemaking prohibits consideration of any change in a particular portion of a utility's revenue requirement in isolation. The AG's proposal does not comply with these rules since it entails replacing

AIC's 2016 forecasted amount of pension and OPEB costs with an amount based on an estimate of pension and OPEB costs in years after the 2016 test year.

Accordingly, the Commission declines to adopt the AG's proposed adjustment and finds that AIC's forecasted test year amounts for pension and OPEB expense are supported by the evidence, reasonable, and hereby adopted.

5. Non-Qualified Pension Costs

a. AIC Position

In addition to pension and other post-retirement benefits, AIC also has a non-qualified pension plan. AIC explains that a non-qualified plan is a type of employee benefit plan that falls outside of the Employee Retirement Income Security Act ("ERISA") guidelines and is subject to contribution limitations under the Internal Revenue Code ("IRC").

AIC states that its non-qualified plan is a form of supplemental retirement plan, available to every AIC employee whose normal pension benefit is subject to certain IRC limitations. AIC states that it has had this type of plan in place for many years, and it operates to restore the level of retirement benefits that would have been earned under a qualified retirement plan, but for these IRC limitations. In other words, the Company explains, it supplements the benefits that some employees lose based on the tax rules for pension plans. As a "restoration" plan, AIC notes that it differs from a value-added plan (which some other companies use), because the plan does not provide any additional benefit. AIC explains that most large companies have these types of restorative retirement plans, and that the availability of these plans helps the Company attract, retain, and motivate the highest quality executives, which in turn allows it to provide superior customer satisfaction and company performance, and is critical to ensure the delivery of safe and reliable service to customers.

AIC points out that these types of costs have previously been included in AIC's gas rates without controversy. See, e.g., *Central Ill. Light Co. d/b/a AmerenCILCO*, Docket Nos. 07-0585 through 07-0590 (Consol.), Order (Sept. 24, 2008). And the Commission has expressly allowed cost recovery for non-qualified retirement plans in the past. See *Peoples Gas Light & Coke Co.*, Docket No. 91-0586, 1992 Ill. PUC LEXIS 376 at *67-68 (Oct. 6, 1992). In that case, Commission Staff proposed to disallow recovery of expenses related to non-qualified pension plans. Staff argued that the plan was "available only to a select few highly paid individuals" and its costs were not tax deductible. *Id.* at *66. The Commission declined to adopt Staff's proposed adjustment, stating that it was not bound to adopt the IRS standards of whether an expense is deductible in its determination of whether that expense should be included in a utility's revenue requirement calculation. *Id.* at *67.

The AG and CUB/IIEC recommend that the Commission disallow recovery of costs associated with AIC's non-qualified retirement plan. AIC points out that the AG and CUB/IIEC argue that allowing recovery for these costs violates the requirement that utility rates be "least-cost," and therefore should be disallowed. As a threshold matter, AIC responds that the AG's emphasis on the words "least cost" glosses over the statutory

requirement that least cost must be “consistent with [service] obligations.” 220 ILCS 5/8-401.

The AG’s and CUB/IIEC’s main argument, AIC states, is that “only a few highly paid executives benefit” from the non-qualified pension plan. AIC explains, however, that all employees whose pension benefits are limited by the IRS standards are able to participate in the non-qualified plan and have those benefits restored to the level they would otherwise have received under AIC’s normal pension plan. While the number of employees who participate may be small relative to AIC’s total number of employees, these employees are not specially selected based on their rank in the company or any other factor.

The AG also relies on the assertion that non-qualified plan costs are “not deductible in the Company’s tax return.” AIC explains that this is also wrong. Expenses paid into a non-qualified pension plan are ordinary, deductible expenses when paid. See, e.g., *Albertson’s Inc. v. Comm’r*, 42 F.3d 537, 543 (9th Cir. 1994).

AIC notes that AG witness Coppola also claims that regulatory commissions in other states have chosen not to allow recovery for these non-qualified pension plans. AIC points out that Mr. Coppola does not cite any relevant decisions or even name those other states, nor does he explain whether these unspecified decisions relate to restorative plans like AIC’s. The Company argues that regardless, the Commission is not bound by the decisions of other states. See Docket Nos. 07-0241/07-0242 (Consol.), Order at 152.

b. AG Position

The AG notes that the Act makes multiple references to the mandate that utility rates be least-cost. See 220 ILCS 5/1-102; 220 ILCS 5/1-102(a); 220 ILCS 5/8-401. The AG argues that it is with these provisions of the Act in mind that the Commission must assess the Company’s request to recover excessive executive compensation amounts in AIC customer rates.

The Company’s request for rate recovery of \$176,492 for Non-Qualified Pension Plan Administration belies these statutory goals, according to the AG. The AG states that no Company witnesses presented evidence to justify this cost. The non-qualified retirement plans typically include retirement costs for Company executives that receive retirement benefits in excess of the limitation imposed by the IRC for deduction of the related expense in the tax return. Non-qualified retirement plans apply to only a few highly paid executives and many regulatory commissions do not allow recovery of cost related to such plans. AG Ex. 2.0 REV. at 22.

In its assessment of this issue, the AG argues that the IRC limitations were enacted because legislators wanted to limit the cost to taxpayers of benefits which apply to only a limited number of high-income executives. Employers continue to offer these benefits because they allegedly provide value to their executive employees. *Id.* at 23. Despite the usual argument by Company management that these costs are legitimate business costs for retirement programs typically offered to executive management by many corporations, the payment of these costs should not be recovered in rates for an essential service, as they provide no discernible benefit to ratepayers, according to the AG.

The AG reminds the Commission that the Company has the burden under Section 9-201 of the Act to prove the justness and reasonableness of the expense amounts it requests be recovered in rates. The fact that these particular benefits provide value to the executive employees who receive them does not mean that the cost of these benefit plans should be paid by customers. The bottom line is that customers (like taxpayers) should not pay for costs that benefit only a select few highly-paid employees of the Company.

In response to Mr. Coppola's proposed adjustment, AIC witness Langenhorst disputes the characterization of the plans as being applicable to a small, select group of highly-paid employees and rhetorically spins these plans as benefit restoration plans for those executives. She generally states that these special plans provide benefits to customers by allowing AIC to attract, retain and motivate executives to achieve superior customer satisfaction and company performance, which the AG argues fails to satisfy the requirements of the Act that rates for an essential service be least cost. AIC Ex. 31.0 at 18-19; 220 ILCS 5/8-104. The AG notes that the Company, in a data request to disclose how many employees participate in the non-qualified plans, the titles of those employees, and the compensation limit in the IRC that triggers participation in the plans, provided the following information:

1. At AIC, 43 employees participate in the AIC Corporation Deferred Compensation Plan and the Supplemental Retirement Plan. At AMS, 85 employees participate in the plan.
2. The employees that typically participate in these plans are Presidents, Senior Vice Presidents, Vice Presidents, Senior Directors, Directors and Controllers.
3. The compensation threshold that triggers participation in the plans is either \$210,000 or \$265,000 depending on which section of the IRC is applicable.

AG Ex. 5.0 at 13. The AG argues that this information reaffirms the point made by Mr. Coppola that a relatively small group of highly-paid executives participate in the non-qualified benefit plans, as compared to the total AIC employee base, which the Company listed as 4,562 as of the end of September of 2014.

The AG points out that AIC's defense of its non-qualified pension costs for certain highly paid executives is rooted in a claim that these expenses were not disallowed in the past. The fact that no party may have challenged them in recent AIC rate cases, however, is of no consequence to the proposal in this docket. The concept of public regulation requires that the Commission have power to deal freely with each situation that comes before it, regardless of how it may have dealt with a similar or even the same situation in a previous proceeding. *Mississippi River Fuel Corp. v. Illinois Commerce Comm'n*, 1 Ill.2d 509, 513 (1953). Illinois courts have consistently held that "decisions of the Commission are not res judicata." *Commonwealth Edison Co. v. Illinois Commerce Comm'n*, 405 Ill.App.3d 389, 407 (2010). Moreover, requiring intervenors (or Staff) to establish unreasonableness is no substitute for requiring proof of reasonableness. *People ex rel. Hartigan v. Illinois Commerce Comm'n*, 117 Ill.2d 120, 135-136 (1987).

The AG recommends that the Commission disallow recovery of these costs from AIC's rates, as many regulatory commissions have done in other states, and remove \$176,492 from the projected test year, with \$104,266 deducted from test year O&M expense and \$72,226 deducted from forecasted capital additions. AG Ex. 2.0 REV. at 23.

c. CUB/IIEC Position

CUB/IIEC assert that participants in these plans are receiving benefits determined by tax law to be in excess of reasonably allowed levels for inclusion in regular benefit plans and are not deductible in the Company's tax return. AG Ex. 5.0 at 13. Thus, aside from a vague and unsupported claim that these type of plans "can attract, retain, and motivate an executive population to achieve superior customer satisfaction and company performance" (AIC Ex. 31.0 at 19), it is the position of CUB/IIEC that the Company did not provide any evidence to support any tangible benefits to customers that have resulted from these plans. Therefore, CUB/IIEC support the AG's adjustment to disallow recovery of these non-qualified retirement plans.

d. Commission Analysis and Conclusion

The Company requests rate recovery of \$176,492 for its Non-Qualified Pension Plan. Non-qualified retirement plans typically include retirement costs for Company executives that receive retirement benefits in excess of the limitation imposed by the IRC. The Commission notes that non-qualified retirement plans apply to only 45 executives at AIC and the compensation threshold that triggers participation in the plans is either \$210,000 or \$265,000 depending on which section of the IRC is applicable. AG Ex. 5.0 at 13. The AG and CUB/IIEC object to AIC's recovery of this expense from ratepayers.

The Commission agrees with AIC that the non-qualified pension costs are properly recoverable. These types of costs have previously been included in AIC's gas rates without controversy, and the Commission has expressly allowed cost recovery for non-qualified retirement plans in the past. In Docket No. 91-0586, the Commission stated the following:

The issue before the Commission is this: whether the IRS' standards as to whether an expense is deductible should be adopted by the Commission in determining whether an expense should be included in a utility's revenue requirement calculation. The answer is no. The effect of accepting Staff's adjustment is that the Commission would be ruling that the employees covered by this plan are overcompensated. There is no evidence to this effect in the record. The Federal policy for making certain pension plans non-deductible is to encourage employers to include as many employees as possible in their plans. It is not the Commission's place or purpose to evaluate Respondent's expenses using the IRS' policies.

Peoples Gas Light & Coke Co., Docket No. 91-0586, 1992 Ill. PUC LEXIS 376 at *66-68 (Oct. 6, 1992). The Commission still finds this reasoning to be applicable.

The Commission agrees that AIC's plan, as structured, allows employees whose pension benefits are limited by the IRS standards to participate in the non-qualified plan and have benefits restored to the level they would otherwise have received under AIC's normal pension plan. There is nothing unreasonable about such a structure and the AG's proposed adjustment is rejected.

6. Gasoline and Diesel Fuel Costs

a. AIC Position

AIC asserts that it has agreed to Staff's proposal to use the average 2016 price estimates in the July 2015 EIA Short-Term Energy Outlook to calculate the O&M expense and rate base adjustments to the Company's test year fuel costs. AIC notes that the AG, however, has not agreed to Staff's proposed adjustments. Rather, the AG advocates an adjustment to O&M expense that relies solely on average prices derived from four months (January-April 2015) of actual fuel costs, rather than the average prices based on 12 months of 2016 estimates in the EIA forecast. This adjustment would further reduce test year O&M expense by another \$138,626.

AIC states that the Commission should approve the O&M expense and rate base adjustments to test year fuel costs agreed to by Staff and AIC, and reject the AG's O&M expense adjustment. Staff's proposed adjustments are based on forecasted average prices for 2016, the test year in this case, not actual 2015 costs. Staff's adjustments rely on 12 months of forecasted prices, rather than four months of actual costs. And Staff's adjustments rely on an independent and impartial governmental agency, rather than solely its experts' opinions. Thus, AIC argues Staff's adjustments produce a more reliable and accurate forecast than the AG's proposal.

AIC argues that the use of four months of actual costs is not a more appropriate method to calculate a forecasted price for a future period. AIC notes that the period of data relied upon by AG witness Coppola to calculate an average price for a volatile expense is far too short, and AIC's claims that there is no explanation why Mr. Coppola does not include any 2014 data in his average to use at least 12 months of actual data. AIC points out that there is no update of Mr. Coppola's prices with actual data from May-July 2015, even though he did not file his Rebuttal Testimony until early August. AIC also notes that he does not acknowledge that fuel prices are volatile. Mr. Coppola claimed in his rebuttal that AIC had not shown that prices had changed significantly for other months of 2015. But AIC argues that in reality, the average actual prices for gasoline and diesel fuel during the second four months of 2015 did change significantly. AIC notes that the average actual price of gasoline from May-August 2015 had gone up \$0.35 to \$2.65/gallon, whereas the average actual price of diesel had dropped \$0.12 to \$2.66/gallon. The Company argues that this difference in average actual prices since the first four months of 2015 shows why historical data of such a short duration is not a more reliable indicator of future expense, for commodities that experience volatile changes in prices.

Mr. Coppola claimed that "it is preferable in this situation to use actual prices experienced by the Company than forecasted national average prices." AG. Ex. 5.0 at 17. However, AIC argues that Mr. Coppola ignores the fact that Staff adjusted the

average EIA 2016 price for gasoline based on variances in actual prices that the Company historically paid. Staff also found that the average EIA 2016 price for diesel fuel required no adjustment, since, unlike gasoline, AIC's historical prices for diesel aligned with national prices. AIC asserts that the AG's claim that Mr. Coppola's approach is "a more localized indicator of fuel prices" is simply wrong.

Moreover, AIC states that Mr. Coppola does not explain why a future test year case is "the situation" to rely exclusively on four months of actual fuel costs to calculate an accurate and reliable forecast. AIC asserts that no prior Commission decision is cited to support the use of four months of actual data to calculate projected fuel costs instead of a recent forecast of fuel prices for the test year. In contrast, AIC notes, the Commission has relied on EIA forecasts to calculate average fuel prices for future test year periods, specifically in Docket Nos. 09-0166/09-0167 (Consol.) for North Shore Gas Company and Peoples Gas Light and Coke Company. AIC argues that there is no evidence in the record in this proceeding to justify a deviation from that prior Commission practice.

Finally, AIC takes issue with Mr. Coppola's statement that "with the glut of crude oil not likely to diminish in the near future, the forecasted price of gasoline and diesel fuel will continue to decline...." AG Ex. 5.0 at 17. AIC states that Mr. Coppola does not provide any support for this opinion, nor does he claim an expertise in forecasted fuel prices. AIC points to the EIA as such a recognized authority. AIC notes that it is the federal entity that collects, analyzes, and disseminates independent and impartial energy information to promote sound policymaking, efficient markets and public understanding of energy and its interaction with the economy and the environment. The EIA's purpose is to serve as the federal government authority on energy statistics. According to AIC, its resources, including its budget (\$117 million in 2015), and its experience make the EIA forecast a more reliable source than Mr. Coppola.

For these reasons, AIC requests that the Commission approve the Staff proposed O&M and rate base adjustments to test year fuel costs, and reject the AG's O&M adjustment.

b. AG Position

The AG states that incorporated within the Company's test year 2016 O&M forecast are assumptions as to what the Company will pay for gasoline and diesel fuel costs for its fleet of cars and trucks. The AG notes that in response to data requests, the Company disclosed that in preparing this rate case filing in late 2014, it estimated the cost of gasoline and diesel fuel for 2016 at \$3.34 and \$3.71 per gallon, respectively. According to the AG, the Company stated that it developed this 2016 fuel price forecast by analyzing the price paid in 2013 and year-to-date 2014 as of that point in time, and applied an assumed 3% decline in price. AG Ex. 2.0 REV. at 24.

The AG points out that given the continued decline in fuel prices, the Company was asked to provide more recent information on the prices paid during year-to-date April 2015. The AG notes that the recent information shows that fuel prices have declined significantly from the level assumed for 2016, and that the Company's original forecasted price of fuel is in need of adjustment – a fact recognized by Staff and the Company as well. *Id.* at 24; Staff Ex. 11.0 at 4-7; AG Ex. 35.0 at 6.

The AG states that its witness, Mr. Coppola, based his analysis of the Company's original fuel price forecast on actual data provided by the Company of the price of gasoline paid during the first four months of 2015. AG Ex. 2.0 REV. at 24. The AG asserts that Mr. Coppola's investigation revealed an average price of \$2.30 per gallon, or \$1.04 less than the original test year forecast. Similarly, the AG notes that the actual price paid for diesel fuel was significantly lower than forecasted by AIC, averaging \$2.78, or \$0.93 per gallon lower than the test year forecast. *Id.* The AG notes that as AIC's own witness, Mr. Getz, admitted during cross-examination, "all else being equal, yes," more recent historical information is a better, more reliable indicator of what future fuel prices might be than more dated information. Tr. at 75. The AG highlights that in Rebuttal Testimony, Mr. Coppola explained that it was unnecessary to update his Direct Testimony proposal with actual data from the next three months of 2015 because he believed that a glut of crude oil will continue bringing down gasoline and diesel fuel prices in coming months, making any adjustments to his Direct Testimony proposal unnecessary. AG Ex. 5.0 at 17-18.

The AG states that based on these clear downward trends in gasoline and diesel fuel prices, Mr. Coppola recommended that recoverable expense for the test year of 2016 be reduced based on the actual prices experienced by the Company during the first four months of 2015 -- \$2.297 per gallon for gasoline and \$2.784 for diesel fuel. The AG asserts that these assumed prices entail total recoverable expense of \$1,332,289, which is a reduction of \$491,722 from the Company's request in its initial filing. AG Ex. 2.0 REV. at 24; AG Ex. 5.0 at 16-17; AG Ex. 5.7 REV. The AG notes that Mr. Coppola argued that "it is preferable in this situation to use actual prices experienced by the Company [rather] than forecasted national average prices." AG Ex. 5.0 at 17. The AG states that Mr. Coppola's proposal is also a reduction of \$138,626 from the Company's request in its Surrebuttal Testimony (and Initial Brief). Staff Ex. 11.0 at 5, 7; AIC Cross AG Ex. 1.0 at 16.

The AG asserts that in his Direct Testimony, Staff witness Lounsberry adjusted the AIC 2016 test-year forecast to incorporate a price of \$2.80 per gallon for gasoline and \$3.24 per gallon for diesel fuel. The source of Staff's proposed fuel prices was the EIA Short-Term Price Outlook for 2016 as of April 2015. The AG explains that Mr. Lounsberry then adjusted the EIA 2016 price to reflect the variances that existed between AIC's historical gasoline prices and the EIA's historical gasoline prices for 2013 and 2014, which resulted in a 7 cent adder to the EIA projected 2016 price. Staff Ex. 5.0 at 19-20. The AG notes that in Rebuttal Testimony, Mr. Lounsberry revised his adjustment to test year fuel expense to incorporate the July 2015 EIA Short-Term Price outlook of 2016 prices, which have dropped to \$2.55 for gasoline from \$2.80 in April, and to \$3.03 from \$3.24 for diesel fuel. His total adjustment amounted to a reduction of \$313,711 in gasoline expense and \$70,385 for diesel fuel expense. Staff Ex. 11.0 at 4-7.

The AG notes that in its Rebuttal Testimony, AIC accepted Staff's proposed use of EIA information for the calculation of fuel expense. The AG argues that although AIC witness Getz criticized Mr. Coppola's use of four months of price data in Mr. Coppola's adjustment, he could not challenge the fact that fuel prices were dropping over the Company's inflated forecast. Additionally, Mr. Coppola further testified that the glut of

crude oil is not likely to diminish in the near future, and that the forecasted price of gasoline and diesel fuel will likely continue to decline toward current levels in the coming months. AG Ex. 5.0 at 17-18. Further, the AG states that Mr. Getz agreed during cross-examination with certain premises behind Mr. Coppola's analysis: first, that EIA data shows a decline in crude oil prices in 2015 compared with 2014 and 2013 (Tr. at 76); second, that gasoline price declines typically accompany crude oil price declines (Tr. at 76); and third, that a glut of crude oil in the market is one of the factors behind a decline in gasoline prices (Tr. at 76).

The AG argues that the Commission's decision on what constitutes a reasonable forecast of fuel prices rests on its assessment of whether it is preferable to rely on national, average price forecasts or actual prices paid by AIC in 2015 that reflect a more localized indicator of fuel prices. The AG states that in that regard, the choice should be clear. According to the AG, as Mr. Coppola pointed out, when available, it is preferable to use actual prices experienced by the Company than forecasted national average prices that do not reflect local markets. The AG suggests that given the continued decline in fuel prices over the year, Mr. Coppola's adjustment, which is based on data from the first four months of 2015, is a conservative one, and should be adopted by the Commission.

c. CUB/IIEC Position

CUB/IIEC observe that the Company uses large amounts of gasoline and diesel fuel to operate its fleet of cars and trucks. AIC initially estimated the cost of gasoline and diesel fuel for 2016 at \$3.34 and \$3.71 per gallon, respectively. In preparing the 2016 price forecast, the Company analyzed the price paid in 2013 and year-to-date 2014 as of that point in time, and applied an assumed 3% decline in price. AG Ex. 2.0 REV. CUB/IIEC argue that updated information, however, shows that recent fuel prices have declined significantly from the level AIC assumed for 2016. AG witness Coppola testified that the price of gasoline paid by the Company during the first four months of 2015 averaged \$2.30 per gallon, or \$1.04 less than forecasted. *Id.* Similarly, the price paid for diesel fuel averaged \$2.78, or \$0.93 per gallon lower. *Id.* CUB/IIEC note that Mr. Coppola calculated the impact of the lower prices as a reduction in forecasted O&M expense of approximately \$923,000. AG Ex. 2.11. CUB/IIEC support this disallowance based on the record evidence demonstrating significantly lower projected fuel costs than AIC estimated.

CUB/IIEC point out that Staff witness Lounsberry also recommended that, given the more recent pricing information for gasoline and diesel fuel, AIC should rely on the more recent pricing forecast. Staff Ex. 11.0 at 13. CUB/IIEC assert that AIC agreed to the updates proposed by Mr. Lounsberry in his Direct Testimony based on the April EIA Short-Term Energy Outlook data and that AIC later accepted Mr. Lounsberry's subsequent proposal in his Rebuttal Testimony to update the cost forecast using the July EIA Short-Term Energy Outlook data. AIC Ex. 34.0 at 3. The July EIA Short-Term Energy Outlook data reflected a drop in prices to \$2.55 for gasoline from \$2.80 in April, and for diesel, to \$3.03 from \$3.24. *Id.* CUB/IIEC observe that Mr. Coppola's calculation of 2016 gasoline and diesel fuel costs are based on the actual prices experienced by the Company during the first four months of 2015. AG Ex. 5.0 at 17. Those prices are approximately \$2.30 and \$2.78 for gasoline and diesel fuel, respectively. CUB/IIEC state

that Mr. Coppola's adjustment is preferable, because it is the most recent data available in the present record. According to CUB/IIEC, the AG's proposed cost for gasoline and diesel fuel is more reasonable and more appropriate than the forecasted numbers used by Mr. Lounsberry, and should be adopted by the Commission.

d. Staff Position

Staff explains that it initially expressed concern in its Direct Testimony that AIC used dated prices for its estimate of 2016 gasoline and diesel fuel costs. Staff Ex. 5.0 at 4-9. Staff notes that as a result, it recommended that AIC rely on the gasoline and diesel fuel prices from the April 2015 EIA Short-Term Energy Outlook, after accounting for variances between the historical EIA fuel prices and AIC historical fuel prices. *Id.* at 5-9. AIC agreed in its Rebuttal Testimony to amend its requested O&M expenses to account for the more recent fuel prices. AIC Ex. 18.0 REV. at 3. Staff elaborates that in its Rebuttal Testimony, it recommended a further reduction to AIC's requested O&M expenses to account for gasoline and diesel fuel cost based on the July 2015 EIA Short-Term Energy Outlook. Staff points out that AIC agreed to Staff's recommendation in its Surrebuttal Testimony. AIC Ex. 35.0 at 2. The effect of Staff's adjustment is a reduction of AIC's gasoline expenses of \$7,549 for RZ 1, \$8,088 for RZ 2, and \$15,754 for RZ 3 as well as a reduction in diesel fuel expenses of \$16,943 for RZ 1, \$18,143 for RZ 2, and \$35,299 for RZ 3. Staff Ex. 11.0 at 5-7.

Staff asserts that it disagrees with the AG's recommendation. The AG argues that its use of gasoline and diesel fuel prices based on actual prices from the local market is better than Staff's proposed fuel prices, which are national average prices. Staff notes that its proposal relies on EIA prices and that Staff included a correction factor for differences between AIC's historical gasoline prices and the historical EIA values. Staff Ex. 5.0 at 6-7. Further, Staff notes that AIC's historical diesel fuel prices already directly correlated to the historical EIA prices. *Id.* at 9. Therefore, Staff argues its proposal accounts for variances that may exist between the local fuel market and EIA's national forecast. Staff maintains that the AG's proposal simply relies on a snap shot of prices at a set point in time that may or may not bear any resemblance to AIC's 2016 gasoline and diesel fuel prices. Consequently, Staff believes its proposal is more accurate and thus clearly superior to the AG's. Staff recommends that the Commission accept its proposal for the valuation of AIC's gasoline and diesel fuel cost instead of the AG's proposal.

e. Commission Analysis and Conclusion

Based on a review of the record, the Commission finds that Staff's proposal for the valuation of AIC's gasoline and diesel fuel costs, which AIC accepts, is supported by the evidence, reasonable, and should be adopted.

Staff proposes to use the average 2016 price estimates in the July 2015 EIA Short-Term Energy Outlook to calculate the O&M expense and rate base adjustments to the Company's test year fuel costs. Unlike the AG's proposed adjustment which relies on average prices derived from four months of AIC's actual fuel costs in 2015, Staff's proposal is based on 12 months of 2016 estimates in the EIA forecast. The EIA's forecast has been used before by the Commission to adjust forecasted fuel costs and as AIC states, the EIA is an independent and impartial source that serves as the federal

governmental authority on energy statistics. Additionally, Staff adjusted the average 2016 EIA price estimates for gasoline based on variances in actual prices that the Company historically paid. This modification was not needed for the diesel price estimates since the Company's historical prices were aligned with the national prices. Thus, Staff's proposal accounts for variances that may exist between the local fuel market and EIA's national forecast.

For these reasons, the Commission is of the opinion that Staff's methodology will provide a more accurate projection of AIC's gasoline and diesel fuel costs for the test year than the AG's proposal which relies on prices from a very short time period. Accordingly, the Commission declines to adopt the AG's adjustment and adopts Staff's adjustment which AIC accepts.

7. Gas Distribution and Transmission Expense

a. Sewer Cross Bore Inspections

(i) AIC Position

AIC points out that the dangers of sewer cross bores are well documented. The industry—both regulators and utilities—consider sewer cross bores to be a threat to the integrity of the gas distribution system, public safety, and civil infrastructure. A “clean-out” to unclog sewer pipes, for example, can easily penetrate a natural gas pipe and lead to the dangerous release of natural gas, which can cause explosions, injuries, and property damage. And the generally accepted way to eliminate cross bores is through an inspection program that allows the utility to take proactive measures to prevent and mitigate these potential gas incidents.

In 2013, AIC initiated its sewer cross bore inspection program and it accelerated the number of inspections the following year. The increased inspections in 2014 identified and repaired 13 cross bores. The Company states that, given these findings, it saw the need to expand the number of inspections even more in 2015 and 2016. Through June 2015, AIC identified and repaired four more cross bores. Thus, AIC explains, in a relatively short time, its inspections already have identified and repaired 17 cross bores in sewer laterals and mains.

AIC states that it plans to conduct more sewer cross bores inspections in the 2016 test year than it conducted in 2015. In AIC's view, the record details the bases for the increase in expense for sewer cross bores inspection that AIC projects for the test year. AIC forecasts that it will spend \$957,000 in 2016 on sewer cross bore inspections. AG witness Coppola asks the Commission to limit AIC's recovery to the level of expense planned for 2015 (\$758,000), but the Company argues that its proposed increase in the number of inspections in 2016—and related expense—is prudent and reasonable, given the number of potentially impacted gas facilities and the corrective actions taken so far to eliminate cross bores. AIC says that the Commission should not cap the Company's expense at 2015 levels, given the need and regulatory responsibility to reduce the pipeline safety risk that sewer cross bores pose to the provision of safe and reliable gas service.

The AG asks the Commission to limit AIC's cost recovery to 2015 levels until the Commission can review and approve a comprehensive, long-term plan. The Company states that it has explained the work plan for the 2016 test year, and for the next three years after 2016. In response to AG data request 11.07, AIC provided the following data for 2013-2019: actual or forecasted spend, proposed division (town) survey area, actual or estimated number of laterals inspected, and actual or estimated cumulative number of laterals inspected. For this proceeding, AIC states that the "relevant work plan" is the work that AIC plans to do in the test year. The Company notes that the estimated number of inspections that it plans to do in the test year (4089) has been identified. The proposed area of the service territory in which the 2016 inspections will be conducted, Division 2 (Quincy) has been identified. And the average cost of inspection reflected in the 2016 forecast (\$234 per lateral), to which Mr. Coppola did not object, has been identified—and is slightly lower than the average cost that AIC is presently experiencing (\$250-260 per lateral).

AIC explains that it has been performing inspections at locations identified as areas with potentially affected facilities, analyzing both inspection data and service data, to target areas for future inspection, and to avoid inspection of all service installations. AIC has not proposed any length of program to complete all inspections, nor has it asked the Commission to approve such a long-term program. At the end of the 2016 test year, AIC will have three full years of sewer inspection and service data. AIC argues that the data will assist it in developing a plan for future inspections. But in recommending a cap on inspections for the test year at 2015 levels, AIC explains that Mr. Coppola is asking the Commission to limit funding in the short term for actions that address a known risk to the gas distribution system, public safety, and civil infrastructure.

The AG claims Mr. Colyer admitted during cross-examination that the potential hazards with sewer cross bores has existed since before 2013. That admission, AIC states, does not justify the Company taking a less aggressive approach to dealing with the problem, as suggested by the AG's adjustment. AIC maintains that the record demonstrates that the Company's planned increase in inspections and expense for 2016 is more reasonable than the AG and Mr. Coppola's proposed cap on expense at 2015 levels.

(ii) AG Position

The AG notes that AIC spent approximately \$58,000 to inspect 479 sewer cross-bore laterals in mains in 2013, and \$494,000 in 2014. AG Ex. 2.0 REV. at 25. The Company is forecasting expense of \$758,000 for 2015 and \$957,000 for the 2016 test year. *Id.* at 25; AIC Ex. 22.0 2d REV. at 16. The AG claims that there is a lack of evidence for the needed acceleration in spending and recommends allowing recovery based on the forecasted 2015 expense level of \$758,000. *Id.* at 26; AG Ex. 5.0 at 35.

The AG notes that AIC witness Colyer defended the acceleration of sewer cross-bore inspections in his Rebuttal Testimony, arguing that "[g]iven the findings in 2014, AIC determined that an increase in the number of inspections would be prudent for both 2015 and 2016, based upon the identified cross bores found and mitigated in 2014." AIC Ex. 22.0 2d REV. at 19. The AG states that even granting *arguendo* that the inspections are useful for public safety, it is important to note that Mr. Colyer did not explain why an

increase in the pace of inspections is justified, or why a 26% increase from 2015 expense to 2016 is the appropriate rate of increase. The AG further notes that Mr. Colyer admitted during cross-examination that the problem of potential hazards with cross-bores has existed since before 2013. Tr. at 93.

The AG notes that its witness, Mr. Coppola, observed in his Rebuttal Testimony that, when asked to provide a plan of implementation for the program showing the locations to be inspected and repaired by year, the Company provided a spending forecast with a 1% escalation factor for each of the three years after 2016, without any explanation for this rate of increase. AG Ex. 5.0 at 35; AIC Ex. 38.2. The AG further observes that when pressed in cross-examination, Mr. Colyer allowed only that the 1% factor is “a simple year over year escalation factor for potential increases in labor.” Tr. at 96. The AG notes that the Company also stated that it plans to increase the number of inspections from 279 (2013) to 1,787 (2014) to 2,888 (2015) and then 4,089 (2016) followed by roughly zero growth in each of the subsequent three years. AG Ex. 5.0 at 35; AIC Ex. 38.0 at 10. The AG also opines that Mr. Colyer represented that the Company has not presented a comprehensive plan to address this inspection program over the long term (which could be up to 50 years) with appropriate identification of priority locations and allocation of resources.

The AG states that AIC’s cross-bore inspection program appears to lack a comprehensive long-term plan or thesis. The AG states that the justness and reasonableness of a particular spending program in a test year must be assessed, in part, by whether it fits into any sort of long-term plan or is just haphazard spending for its own sake. The AG recommends that the Commission should allow recovery only based on the 2015 projected expense level of \$758,000, a reduction of \$199,000 to the Company’s request.

(iii) Commission Analysis and Conclusion

The Commission recognizes that sewer cross bores are a safety concern. The Company states that its current program has found and remediated several instances of cross bores, eliminating the risk of a potential incident at those locations. Notably, in 2014 the Company found 13 cross bores and as of the date of testimony, AIC had found four in 2015.

The AG questions the increase in spending since 2013 and claims it is unjustified. The Commission is also concerned that these inspections were not done prior to 2013, or at least not as frequently. But, the answer is not, contrary to the AG’s position, to cut funding for inspections. Rather, the Commission is pleased that this has been brought to our attention as a request for additional funds for inspections, rather than as an incident in the news.

AIC says that it is asking the Commission to recognize the risk that sewer cross bores pose to the public and the integrity of the distribution system, the necessity of the inspections, and the extent of the facilities potentially affected. Based on AIC’s inspections and service repairs to date, AIC states that it believes that the increase is necessary and reasonable, so that the Company can locate and remediate additional cross bores and eliminate the potential of a more serious incident. The Commission

agrees with AIC's assessment of the evidence in the record and is of the opinion that the increase in inspections and related expense is justified.

The Commission also finds that AIC has provided ample evidence in support of its inspection program for the test year. On the basis of the test year plan as outlined in the record, the Commission finds that the test year expense for sewer cross bore inspections is prudent and reasonable. With its next rate case, the Company is directed to provide a plan for performing these inspections going forward.

b. Gas Records Management

(i) AIC Position

The Company's revenue requirement includes \$507,000 in test year expense to design and develop new procedures and systems to collect and record data on gas distribution and transmission facilities. AIC argues that the evidence in the record demonstrates the necessity of the expense. AIC explains that the genesis of the planned test year activities for the Gas Records Management ("GRM") program was the Pacific Gas & Electric ("PG&E") pipeline accident at San Bruno in late 2010, at which there were eight fatalities. After that incident, the National Transportation Safety Board ("NTSB") concluded that records on the construction of the pipeline in the mid-1950s were a contributing cause. The Pipeline and Hazardous Materials Safety Administration ("PHMSA") issued an advisory bulletin (ADB 11-01) to all pipeline operators stating that records supporting maximum allowable operating pressure shall be traceable, verifiable and complete. These standards are now included in a proposed rule issued by PHMSA in May 2015. Following the advisory, AIC performed an internal assessment of its practices for the generation, maintenance, use, storage and disposition of Department of Transportation ("DOT") pipeline records.

The AG asks the Commission to disallow all funding for the GRM program, effectively delaying the project indefinitely, until the utility presents a long-term, comprehensive plan for all costs of the initiative beyond the test year. AIC states that maintaining the status quo, even in the short term, is not a viable alternative, given the recognized risks and regulatory requirements. AIC notes that AIC Exhibit 22.5 breaks down the project's 2016 spending: \$292,730 to implement a records governance process and procedures, including training and change management; \$78,520 to develop a high level design of a document management system ("DMS"), business processes and functionality; and \$135,640 to develop a document management system request for proposal ("RFP"), evaluation of the responses, and selection of the vendor and software for the document management system. AIC points out that the AG has not rebutted AIC's evidence that the test year activities are necessary, nor has the AG objected to the reasonableness of the test year costs. AIC also argues that the Commission does not require an exact determination of the program's long-term costs, before ruling on the recoverability of the specific test year costs.

AIC explains that this internal 2014 DOT review identified gaps in data and records, weaknesses in records management practices (e.g., limited material traceability, limited capabilities with existing systems, varied practices in generating records across departments, reliance on humans to create, maintain and update records), and an overall

need to improve quality assurance processes related to the preservation and accessibility of pipeline records. AIC states that these logistical and procedural issues are hurdles to collecting and recording pipeline data electronically, consistently and accurately. AIC points out that the test year activities will allow the Company to develop and implement more stringent controls, establish the methods, and identify the technology to address the improvements noted in the AIC DOT review, comply with PHMSA standards, and fulfill the Company's regulatory requirements for continuous improvement in knowledge, threat assessments and risk analysis capabilities.

(ii) AG Position

The AG observes that AIC introduced a new gas records management program in 2015, with \$150,000 of expense forecasted for the year. AG Ex. 2.0 REV. at 26. The AG further notes that the Company is projecting to spend approximately \$507,000 on the same program in the 2016 test year. *Id.* at 26. AG witness Coppola observes that the Company provided no explanation for the need for the program or its details; nor did AIC justify why over half a million dollars needs to be spent in 2016. *Id.* at 27. The AG notes that in light of the lack of evidence provided by AIC, Mr. Coppola proposes disallowing recovery of the entire 2016 projected expense. *Id.* at 27.

The AG says that AIC witness Colyer attempts to explain the program and its long-term projections further in his Rebuttal and Surrebuttal Testimonies. However, notes the AG, Mr. Colyer admitted that the 2016 expense is largely to develop specifications for a DMS that will be included in a RFP; in other words, the program is not fully defined yet. AIC Ex. 38.3 at 5. The AG further states that AIC has neglected to explain why \$507,000 is necessary to implement a new records management process, to design the DMS, and develop a request for proposal for the DMS (and evaluate responses thereto). The AG observes that AIC's only support for the stated amount of spending in its Exhibit 22.5 is a statement by Mr. Colyer, that the amounts are "based on the estimated contractor costs." AIC Ex. 22.0 2d REV. at 24.

The AG further notes that Mr. Colyer's evidence shows that the records management program could cost \$14 to \$20 million (AIC Ex. 38.3 at 4); in cross-examination, he admitted that the total long-term cost could even be above that maximum \$20 million estimate. Tr. at 103. The AG observes that as Mr. Colyer stated, "AIC doesn't know the ultimate cost of the project." Tr. at 103. The AG states that Mr. Coppola in Rebuttal Testimony "[found] it difficult to accept the spending of \$507,000 for the start of a program which has not yet fully defined," and he continues to advocate the disallowance of the full 2016 expense amount. In sum, the AG urges the Commission to disallow all recovery for this spending item, as the scope of the program is undefined, making any initial steps yet imprudent.

(iii) Commission Analysis and Conclusion

Based on the Commission's review of the record, it is clear that there are issues with AIC's current processes and systems for records governance and document management. Without improved processes and systems and more stringent controls, AIC cannot ensure that its records accurately reflect the characteristics of the pipeline in a manner that is traceable, verifiable, and complete. At issue here, is whether the

proposed \$507,000 included in test year expenses to design and develop new procedures and systems to collect and record data on AIC's gas distribution and transmission facilities is reasonable. The Commission finds that test year activities detailed in AIC Exhibit 22.5 will allow AIC to develop better controls and methods and identify the technology to execute the improvements recommended by the DOT review and comply with PHSMA standards.

Having reviewed the testimony of AIC witness Colyer, the Commission is puzzled by the AG's continued objection to this expense. Mr. Colyer provides a detailed explanation of the need for this program. He also provides a detailed plan for the test year that includes contractor costs to develop specifications for a document management system. It is clear that this multi-million dollar, multi-year project is still in the planning stages. AIC Ex. 22.0 at 23. At the evidentiary hearing on August 24, 2015, Mr. Colyer testified that "Ameren Illinois is forecasting in the test year to implement the foundational aspects of records governance ... in accordance with the standards that we see as becoming regulation or law ... at this point we're only asking the Commission to recover the cost of scoping something like that out." Tr. at 103-104. When the Company returns to recover its costs for the actual program, the Commission will look at whether those costs are reasonable and prudent. AIC has shown, however, that the costs sought to be recovered in the test year are reasonable and prudent and, thus, the Commission rejects the AG's proposed adjustment.

c. Corrosion Control Painting

(i) AIC Position

The Company states that above-ground, steel gas facilities must be painted to prevent external atmospheric corrosion which can result in the uncontrollable release of gas, and to extend the useful life of the facilities. It is an ongoing and required maintenance activity. And, AIC points out, it is a critical measure used to maintain the safety and integrity of the facilities, to ensure that their useful life is not compromised or shortened, and to comply with federal and state pipeline safety regulations that require the Company to clean and coat exposed pipe. AIC notes that no party, including the AG, debates the prudence of the activity.

AIC notes that the record shows that its facilities require painting, in particular the pressure control stations that are already suffering from atmospheric corrosion or that have deteriorating or ineffective coating. The Company includes approximately \$1.1 million in the revenue requirement for corrosion control painting - a forecasted amount that it claims is reliable, accurate and reasonable. The Company details the types and numbers of above-ground facilities to be painted in 2016. AIC projects that it will paint the following above-ground gas facilities in the test year: 90,000 residential meters, 50 pressure control stations, and 44 large commercial or industrial meter sets. It provides the same projected information for 2015: 90,000 residential meters, 50 pressure control stations, and seven large commercial or industrial meter sets. And the Company quantifies the projected costs for each category of facility. AIC argues that the data shows that AIC projects the majority of the increase in painting expense from 2014 levels to occur in 2015 (for 2015, painting costs are projected to increase by \$264,000 to \$1.04 million, as compared to 2014), and that the \$30,000 difference in 2016 expense is a

function of the additional large commercial and industrial meter sets to be painted in 2016. AIC opines that the record shows that the majority of the increase is actually occurring in 2015; through August 7, 2015, AIC has incurred \$772,000 on painting, compared to the 2014 year-end expense of \$778,000.

The Company states that the AG argues that inconsistencies in the data justify limiting AIC's recovery to 2014 expenses - a \$300,000 reduction to test year expense. But, AIC argues, there are no inconsistencies that warrant the AG's adjustment; instead the record demonstrates that the forecasted painting expense is prudent and reasonable.

AG witness Coppola claims that a 34% increase in corrosion control painting expense in 2016 was not justified by a 12% increase in the targeted number of residential meters. But AIC notes that, in making that comparison, Mr. Coppola does not account for the increase in projected expense for non-residential facilities.

In his Rebuttal Testimony, Mr. Coppola identifies three other "inconsistencies." But AIC states that the increase in painting expense for residential meters from 2014 actuals to 2015 projected is based on the projected increase in meters to be painted (81,000 to 90,000), and an anticipated increase, on a per unit basis, for contractor labor and travel expenses. AIC argues that the increase in painting expense for residential meters from 2015 projected to 2016 projected is not an increase. AIC explains that forecasted amounts for 2015 and 2016 remain the same; the 2015 actuals to date just have been slightly lower than estimated. AIC explains that the increase in expense for pressure control stations and large commercial or industrial meters from 2014-2016 is a function of the number of facilities to be painted (49, 57, and 94), and the size and configuration of the facilities; there is not necessarily a straight-line correlation between the actual and projected costs and the units to be painted.

AIC further argues that even if these inconsistencies in the estimates were not explainable, the AG's proposal to limit recovery to 2014 levels would still not be justified. AIC says that a reduction in the test year expense of \$300,000 would mean that the Company would not have sufficient funds to paint the estimated 90,000 residential meters, the 50 pressure control stations identified as Category 1, and the 44 large commercial and industrial meter sets. The Company explains that to defer the painting of these facilities would jeopardize their potential useful life and risk uncontrollable leakage due to atmospheric corrosion. And it would delay AIC in executing, in 2017 and 2018, the future painting of other facilities (e.g., the remaining Category 1 pressure control stations and the Category 2 regulator stations). Because of this, AIC states that the Commission should reject the AG's adjustment to disallow \$300,000 to limit AIC's recovery of painting expense to 2014 actual costs.

The Company notes that the AG claims that Mr. Colyer admitted during cross-examination that "he had no evidence" and "he never provided any such information" in support of his explanations for why the projected percentage increase in 2015 expense was higher than the projected percentage increase in facilities to be painted. The Company says that Mr. Colyer made no such admissions. He stated that he did not recall if he answered any discovery on the 2015 estimates for per unit contractor labor and travel expense for residential and small commercial meters. And he stated that he did

not recall any data requests from the AG to provide the size and configuration of the larger commercial and industrial meter sets.

(ii) AG Position

The AG notes that the Company spent approximately \$616,000 and \$778,000 in 2013 and 2014, respectively, to paint residential, commercial and industrial meters and pressure control stations to discourage corrosion. The AG states that for 2015, AIC has forecasted approximately \$1 million of spending on the program and for the test year of 2016, it projects \$1.1 million. AG Ex. 2.0 REV. at 27. AG witness Coppola states that the Company's evidence does not define a long-term plan for the program. *Id.* at 27. Also, he observes that the number of meters targeted for painting increases by 12% from 2014 to 2015, but spending increases by 34% from 2014 to 2015 under the Company's projections. *Id.* at 27-28; AIC Ex. 38.5.

The AG points out that breaking down the projected activity increase among (i) residential and small commercial meters versus (ii) large commercial and industrial meters, the first category shows an 11.5% increase in number of meters from 2014 to 2015 but a 20% increase in spending. AIC Ex. 38.5; AG Ex. 5.0 at 37. According to the AG, AIC witness Colyer attempts to explain this by pointing to increases in per-unit labor costs (AIC Ex. 38.0 at 19-20), but admits during cross-examination that he had no evidence for that claim. Tr. at 109-110. The AG states that in the second category of meters, there is a 16% increase in the number of meters projected to be painted in 2015 compared to 2014, but a 66% projected increase in expense. AIC Ex. 38.5; AG Ex. 5.0 at 37. The AG notes that Mr. Colyer attempts to explain this discrepancy by explaining that "pressure control stations and commercial/industrial meter sets have a wide variety of sizes and configurations, therefore a linear correlation between the cost and the units painted does not exist" – apparently implying that in 2015, the average size of the units to be painted is larger than in 2014. AIC Ex. 38.0 at 19. However, points out the AG, when asked if he provided evidence that the 8 incremental units added in 2015 to the painting program were larger on average than the 49 painted in 2014, Mr. Colyer testifies that he never provided any such information. Tr. at 112.

The AG states that AIC has not provided any documentation of the leak surveys and condition assessments referenced in Mr. Colyer's testimony (AIC Ex. 22.0 2d REV. at 30) that support its asserted levels of activity, so it is not clear why AIC's asserted levels of painting activity are the minimum required to support safe, reliable, and adequate service. Because the increase in projected spending for 2015 does not appear to track the projected increase in number of meters painted, the Commission should allow cost recovery at the 2014 level, \$778,000, as AG witness Coppola recommends. AG Ex. 2.0 REV. at 28.

(iii) Commission Analysis and Conclusion

The Company includes approximately \$1.1 million in the revenue requirement for corrosion control painting. AIC Ex. 22.0 2d REV. at 25. Corrosion control activities include painting (coating) residential and small commercial gas meter sets, pressure control stations, and large commercial/industrial gas meter sets. The AG proposes that

the corrosion control painting in 2016 be set at the same amount as incurred in 2014, a \$300,000 reduction to test year expenses.

The Commission notes that Mr. Colyer explains that the painting program prevents external corrosion and potential for uncontrolled leakage which can result from corrosion. AIC Ex. 22.0 2d REV. at 27. Additionally, he explains:

AIC paints above ground facilities to prevent and/or mitigate external atmospheric corrosion. Painting of above ground facilities is an ongoing maintenance activity and is a critical preventive measure to maintain the safety and integrity of the facilities, as well as to assure the useful life of the facilities are not compromised and shortened due to the effects of atmospheric corrosion which can result in leakage and replacement as the corrective action.

AIC Ex. 22.0 2d REV. at 27. On this issue, the Commission finds AIC's explanation to be more than adequate. Mr. Colyer testifies that the Company has identified the pressure control stations which require the most work and are scheduled to be completed by 2017. The Commission also notes that the spending in 2015 is almost as high as that proposed for the test year, 2016. In other words, there is not an unexplained increase in spending for the test year, but rather that AIC's spending has been increasing over time. During cross examination, Mr. Colyer explains that for residential meters any cost increases are from increased labor and material costs. For industrial meter sets, however, the Company intends to paint approximately 44 more industrial meter sets in 2016, versus 2015. Tr. at 108. The AG provides no credible explanation for reducing the spending on this safety program and the Commission finds the Company's evidence to support its position.

d. Damage Prevention

(i) AIC Position

AIC considers third party damage to be the greatest threat to the integrity of gas distribution facilities. The test year expense for the Damage Prevention program includes additional funding for contractor costs for two activities that reduce third party damages and preserve the integrity of AIC's gas distribution facilities: gas facility locates and Watch and Protect stand-by inspections. The increase in internal staffing is in the form of four additional damage prevention specialists, whose presence will allow for more on-site inspections of excavating and more on-site visits with homeowners and excavators. AIC argues that the incremental labor expense is prudent and reasonable - demonstrated by the success of the Watch and Protect program and the expected decrease in damages that the additional specialists will help AIC to achieve. The AG says the Commission should set the expense for the Damage Prevention activities at 2014 levels. AIC disagrees, stating that the incremental expenses for contractor activities and internal labor are justified.

AIC maintains that these activities are prudent measures to reduce service interruptions and preserve the safety of customers, excavators, and the general public. The Illinois Underground Utility Facilities Damage Prevention Act requires AIC to perform

facility locates. And as a member of Joint Utility Locating Information for Excavators ("JULIE"), AIC must respond to facility locate requests in a timely manner. But in addition to performing locate requests, the Company says that it also performs stand-by inspections. The Watch and Protect process includes all gas mains with pressure greater than 100 pounds per square inch ("psig") and all 8" diameter gas mains or larger. A stand-by inspection is performed in situations where the excavation site is near high profile facilities. If it is determined that a stand-by is necessary, the Watch and Protect locate contractor will be on site during the excavation to ensure that safety procedures are followed and AIC gas facilities are protected. AIC says that these two activities - gas facility locates and Watch and Protect stand-by inspections on high profile facilities - have helped the Company to reduce third party damages.

AIC argues that the record also explains the basis for the increase in contractor costs for these two activities. The projected increase in contractor costs for gas facility locates, from 2014 actual costs to 2016 forecasted costs, is \$268,000. AIC explains that this amount includes a projected modest increase in contractor fees-2% for 2015 and 1% for 2016. And it includes a projected increase in volume of locates - 3% per year for 2015 and 2016. AIC argues that these forecasted increases are conservative and reasonable, given the Company's historical locating activity. The remaining increase in contractor costs, from 2014 levels, is \$58,000 for additional contractor fees for Watch and Protect stand-by inspections. The Company maintains that this increase also is conservative and reasonable, given the expected increase in stand-by inspections.

AIC explains the remainder of the projected increase - or \$382,000 - reflects an incremental increase in labor expense to employ four additional damage prevention specialists to expand the Watch and Protect program. The additional damage prevention specialists will allow AIC to perform the following Watch and Protect activities:

- implement monitoring of high profile facilities near schools, hospitals, assisted living facilities, and nursing homes for stand-by inspections;
- increase the quality assurance auditing on contractor locating and stand-by inspections;
- improve homeowner education on damage prevention (approximately 15% of third party damage) by visiting new home construction sites;
- increase the number of excavator safety meetings across the service territory, including job site meetings and onsite observations with excavators with a history of higher damage rates;
- reduce the current geographic territory of responsibility for each damage prevention specialists to allow for more contact with excavators; and
- monitor boring projects to ensure safe digging practices (e.g., potholing, hand digging, etc.) are being performed by the excavators.

AIC states that these are tangible activities that will result in concrete benefits. The record does not just contain a qualitative description of the new activities, AIC says; it also contains the Company's quantitative analysis of the impact of the additional staff. AIC Ex. 38.7 provides the projected increases for certain Watch and Protect activities that the

Company assumes it can perform annually with the additional personnel: a 10% increase in stand-by inspections to 4,500, a 57% increase in excavator safety meetings to 1,100, and 5,490 homeowner site visits (the new AIC initiative for 2016 to address the 15% of third party damages caused by homeowners). AIC Ex. 38.7 also provides the projected decrease in third party damage from the test year activities and additional staff: an 8% decrease in total gas damages and a 10% decrease in third party gas damages.

The Company opines that Mr. Coppola's opposition to the addition of four damage prevention specialists is based solely on his position that they "seem[] unnecessary" and that the increase in staffing "seems excessive, is unexplained and unnecessary for any marginal benefits that would be derived." AG Ex. 5.0 at 39. The Company argues that the AG relies on unsupported conclusions in lieu of credible evidence to make its case. The Company's testimony and exhibits explain the necessity of the increased staffing levels. Any safety improvement, the Company argues, especially an improvement that eliminates or lessens the risk of an uncontrolled release of natural gas and the potential threat of ignition or explosion, is not a "marginal" benefit.

The Company states that the AG attempts to muddy the waters by claiming that Mr. Colyer "admitted" during cross-examination that the expected reduction in damages is a "projection" and a "calculation" that he did not directly perform. But, AIC states, Mr. Colyer made clear at the hearing that AIC's estimate in the reduction in damages is based upon the Company's historically high success rate in reducing damages and the expectation that the additional activities will help to further lower damages in its service territory. The Company notes that the AG could have sent discovery if it had any concerns with Mr. Colyer's testimony, but it did not. AIC maintains that although Mr. Colyer did not have the details of the calculation at his fingertips during the AG's cross-examination, this does not mean that AIC provided "too little information, too late." Based on evidence in the record, which AIC explains support the incremental \$700,000 in expense that the Company projects it will spend on increased and new activities to reduce third party damage to its gas facilities, AIC asks the Commission to reject the AG's adjustment to set the expense level for Damage Prevention activities at 2014 levels.

(ii) AG Position

The AG notes that in AIC's Damage Prevention program, expenses rose from \$3.9 million in 2013 to \$4.5 million in 2014 (a 17% rise), with further projected increases to \$4.8 million (a 5% increase) in 2015 and then to \$5.3 million (a 10% increase) in 2016. AG Ex. 2.0 REV. at 30. The AG states that the Company attributes the increase to additional requests for JULIE locates and new damage prevention programs. But the number of JULIE locate requests increased only 6% from 2013 to 2014, far less than the 17% increase in expense over that span. *Id.* at 30. The AG says that in response to a data request seeking an explanation for part of the increase in costs, the Company describes a new program to educate excavators, homeowners and the public on how to avoid damage to underground gas lines. *Id.* at 30. AG witness Coppola notes that there is no obvious reason why this new program should increase in cost from year to year. *Id.* at 30. Mr. Coppola thus recommends allowing recovery at the 2014 expense level of \$4.542 million, an approximately \$700,000 reduction from AIC's forecast for the 2016 test year. *Id.* at 31.

The AG observes that AIC witness Colyer justifies the increase in expense from 2014 to 2016 as attributable to the Watch and Protect program (\$326,000 of cost increase) and the hiring of four new Damage Prevention specialists (\$382,000 of cost increase). AIC Ex. 22.0 at 39. The AG says that, according to AIC, the increase in the cost of JULIE locate requests over that span is based on small increases in contractor fees (2% for 2015 and 1% for 2016) and activity level (3% per year). AIC Ex. 38.0 at 22. Mr. Coppola observes in Rebuttal Testimony that “[i]ncreases in contractual arrangements for the Watch and Protect program seem relatively minor and could be offset by increased operating efficiencies.” AG Ex. 5.0 at 39.

Moreover, the AG notes that, as to the new Damage Prevention specialists, Mr. Coppola found that the 40% increase in damage prevention specialists for home visits and contact with excavators seems unnecessary, as those programs were already in effect. *Id.* at 39. The AG points to Mr. Colyer’s statement in his Surrebuttal Testimony (AIC Ex. 38.0 at 24) that the Company projects a 10% reduction in third-party damages attributable to the four additional Damage Prevention specialists added in 2016, juxtaposed with his admission in cross-examination that he “didn’t perform that calculation directly [him]self” (Tr. at 115) and that it was an unspecified “projection” based upon historic performance, without any other explanation. The AG argues that the Company’s attempts to justify its increased spending in Surrebuttal Testimony come as a case of too little information, too late.

The AG urges the Commission to adopt Mr. Coppola’s proposal and set the recovery level for this program at the 2014 level of expense, \$4.542 million. The AG notes that, as Mr. Colyer admits, the 2014 level of expense did not hinder the Company’s ability to successfully reduce third-party damage in that year. Tr. at 116-117.

(iii) Commission Analysis and Conclusion

AIC forecasts approximately \$5.3 million of test year expense for damage prevention – its Watch & Protect program and utility locates. AG witness Coppola recommends reducing this amount by \$700,000, to the 2014 level.

AIC explains that the increase in expense from 2014 to 2016 is partly due to a contractual 2% increase in contractor locating costs in 2015 and another 1% contractual increase in contractor locating costs in 2016. Increases in the locating costs, the approximate 3% increase in the volume of locates per year, and the projected increase in Watch and Protect stand-by inspections account for approximately \$326,000 (\$268,000 locating and \$58,000 stand-by inspections) in expense. For 2016, AIC forecasts additional staffing to execute additional damage prevention activities which have been identified as necessary to continue to reduce third party excavation damage. The additional staffing includes four damage prevention specialists in 2016 projected at an expense of approximately \$382,000. The Commission finds AIC’s testimony to be compelling support for the Company’s test year expenses.

In Rebuttal Testimony, Mr. Colyer testifies that from 2013 to 2014, gas damages were reduced 16% as a direct result of quality locating and the Watch and Protect program. He further explains that with the reduction in damages, “the emergency responses for AIC gas crews is reduced, the cost of repairing damaged facilities is

eliminated and improves safety for AIC customers, the public, AIC employees, and excavators.” AIC Ex. 22.0 2d REV. at 39. On cross examination, Mr. Colyer states the following: “I believe strongly that these additional resources will continue to reduce damage, and our current projection is 10 percent in 2016.” Tr. at 115. The Commission finds AIC to have supported this proposed expense and, thus, the AG’s adjustment is not adopted.

e. Gas Technology Institute Operations Technology Development

(i) AIC Position

The Company’s test year forecast includes \$480,000 for membership in the Gas Technology Institute (“GTI”) Operations Technology Development (“OTD”) program. AIC argues that GTI OTD will offer research and development (“R&D”) benefits that are concrete and near-term, and incremental to what AIC can receive from existing resources, either internally or from the American Gas Association (“AGA”). AIC states that other utilities in Illinois and other states receive these benefits, and it should as well. AIC maintains that the evidence supports the recovery of this forecasted test year expense, as prudent and reasonable. AIC maintains that it is not required to join GTI OTD first and then seek recovery of its membership expenses in a subsequent rate case.

AG witness Coppola claims that the benefits of the GTI OTD seem “marginal” and “would not be known” until after the Company actually joins. AIC argues, however, that the R&D activities of GTI OTD focus on new technologies to strengthen gas system safety, improve operating efficiencies, and maintain system reliability and integrity. AIC explains that with new and changing regulatory requirements come the need for new technologies to assess, repair, rehabilitate and manage distribution and transmission facilities. The GTI OTD program offers technology enhancements that include pipe condition assessments, expanded knowledge and tools for managing legacy pipe systems, methods to implement asset lifecycle tracking and traceability, and the development of comprehensive risk models. The Company states that the research, tools, and techniques of the GTI OTD program will improve AIC’s ability to develop, validate and implement new technologies that will assist it in meeting new pipeline safety requirements and strengthening the safety, reliability, and integrity of the gas facilities. And the program allows utilities to direct their funding to the research projects most applicable to their systems and customers.

AIC says that the record identifies specific, ongoing GTI OTD projects that are immediately available and would offer AIC near-term benefits. For example, PHMSA recently advanced a Notice of Proposed Rulemaking on plastic pipe, which was introduced in May 2015. The GTI OTD project provided the foundational research, development, testing and analysis related to the first four components of this new pipeline safety regulation, including material tracking and traceability. AIC states that it would also have immediate access to the GTI field applied coating database. This database provides coating performance information developed as part of a nine-year research project across numerous manufacturers, coating systems, and field conditions. AIC says that it would also have access to GTI’s ongoing material and product testing reports that would provide product performance information that AIC cannot currently access. GTI is also currently

working on developing a methodology and risk protocol for specific high-risk pipe materials and threats, including vintage Aldyl pipe, which is known to be a higher risk material. The results of this project will provide members with a tool that can quantify the risk of failure using a probability method that is able to isolate problematic pipe segments and mitigate risk and improve system integrity. Another GTI project underway is focused on developing, validating and obtaining regulatory acceptance for a method to establish pipeline yield strength.

AIC argues that the record demonstrates that GTI OTD offers near-term, concrete R&D benefits. These benefits demonstrate that the test year expense for membership will be prudently incurred. And the record also explains the reasonable basis for the forecasted expense—a per meter charge for membership plus AIC’s estimated costs to participate and evaluate GTI OTD’s research projects.

Mr. Coppola claims that the Company “admits” that it “already performs most of these assessments and methods” that GTI OTD would offer. He also suggests that, because AGA committees “share information on industry practices and methods,” the capabilities that GTI OTD would offer are superfluous. AIC maintains, however, that the R&D benefits from GTI OTD offer capabilities beyond what the Company can perform efficiently or effectively with existing internal or AGA resources. For example, AIC explains, it currently does perform assessment of pipe conditions, but if AIC joins GTI OTD the Company would be in a position to fund and support research, along with other member utilities, for the development of new technologies and/or methods to assess pipe conditions. In addition, the AGA does not typically perform R&D activities similar to the ones identified above performed by GTI OTD. The AGA offers a forum for the identification of procedures and practices that can improve the reliability, safety, and cost-effectiveness of a utility’s operations. AIC argues that this type of operational benefit is markedly different from the R&D benefits that flow from participation in GTI OTD. The GTI OTD benefits are incremental, not redundant. Based on the above, AIC asks the Commission to reject the AG’s adjustment to disallow the test year expense included in the forecast for AIC’s membership in GTI OTD.

(ii) AG Position

The AG notes that the Company has included \$480,000 in 2016 forecasted expenses to recover the membership fee to join the GTI and its research/technology development arm. The AG notes that when asked why it is waiting until 2016 to join, AIC suggests in a discovery response that it only recently learned of GTI’s capabilities, which include various technology research that AIC might benefit from. AG Ex. 2.0 REV. at 31; AIC Ex. 7.0 at 11. The AG observes that AIC witness Colyer cites several purported benefits of membership for AIC related to technology and data transfer. AIC Ex. 22.0 2d REV. at 46-48; AIC Ex. 38.0 at 28-29.

However, as Mr. Coppola observes, the full benefits of GTI membership will not be known until after AIC actually joins the organization, so AIC should wait to ask for expense recovery until after it actually has some experience of membership. AG Ex. 2.0 REV. at 32. Indeed, as the AG notes, Mr. Colyer admits in cross-examination that he has not surveyed any other utilities to learn the benefits they derived from GTI membership and has no direct knowledge of benefits they may be experiencing. Tr. at 118. Thus, Mr.

Coppola recommends that the Commission disallow recovery of the full \$480,000 requested amount for this spending program.

(iii) Commission Analysis and Conclusion

The question here is whether AIC should recover its \$480,000 expense to join the GTI OTD. The Commission finds in the record examples of ongoing GTI OTD projects that are immediately available and would offer benefits to AIC and its ratepayers once the Company joins, such as research and development. The AG does not explicitly disagree with the purported benefits, but rather seems to argue that the Company should wait to recover the membership costs.

The Commission notes that a forecasted test year is used so that the utility can recover its prudent and reasonable future expenses. Contrary to the AG's assertion, the utility does not have to incur the actual cost before it can recover the cost in rates. No reason is given to treat the membership fee for GTI OTD at issue here differently. Therefore, the Commission rejects the AG's adjustment to these expenses.

8. Gas Storage Expense

a. Well-Related Work

(i) AIC Position

AIC owns and operates 315 injection/withdrawal wells and 97 gas storage observation wells, which, according to AIC, require increased maintenance. The Company explains that it evaluated its previous well and reservoir related maintenance program and determined that it needed to increase its efforts to ensure the continued performance, reliability and safety of its assets. The activities planned for the test year—activities that AIC says it has already initiated in 2015—will enable the Company to understand the current conditions and performance of its wells and reservoir. AIC Ex. 22.8. AIC states that the activities will also identify necessary future actions to ensure that the wells continue to perform and are available when required to meet customers' gas supply needs. AIC states that it has demonstrated that it is spending approximately as much on well and reservoir maintenance in 2015 as the Company plans to spend in 2016. See AIC Exs. 22.8, 22.9 and 22.0.

The Company notes that AG witness Coppola has proposed to reduce AIC's test year expense by \$3.3 million, which AIC asserts would essentially cap the Company's cost recovery in this case at 2014 levels. The Company states that it provided the Commission with a detailed account of its well maintenance activities for 2015 and 2016, in support of test year expense. AIC Exhibits 22.8 and 22.9 list 50 projects that AIC has planned for each year and identify the storage field, describe the activity, and provide the cost estimate and timetable. The Company explains that the recent well failure at Lincoln storage field and the other issues with well integrity and well materials identified during the 2014 maintenance activities prompted this maintenance program. The Company asserts that it has justified the necessity for the additional, preventive measures to ensure the ongoing integrity, performance, reliability and safety of its storage assets.

AIC explains that, in response to the issues identified during the 2014 maintenance activities, it has developed a maintenance plan, which includes the logging of every well

in AIC's service territory—many of which have not been logged or tested recently—over an eight year cycle. The detailed plans for its 2015 and 2016 work identified the activities that will be funded by the test year expense, which include well logging, wellhead maintenance, well cleaning work, well testing and reservoir modeling. The Company states that it is committed to performing the same level of work in 2017.

AG witness Coppola states that “the question still remains why such a sudden expense ramp up is necessary.” AG Ex. 5.0 at 41. The Company argues that the integrity and performance issues already encountered, however, warrant the development of a plan, starting in 2015 and extending over the next eight years, to perform well loggings on every well in AIC's system to determine the current condition of the wells. Without performing the specified work for 2015, the 2016 test year and beyond, AIC says that it cannot identify the wells that require immediate work or periodic monitoring for integrity and/or performance issues. AIC argues that reducing the level of well O&M expense to the level proposed by Mr. Coppola to 2014 levels, without any basis in the record, would significantly reduce the well and reservoir related activities that AIC is completing in 2015 and planning to complete in 2016 and would impact the well and reservoir activities for future years, given that AIC has stated it will perform similar activities and incur similar expenses in 2017 and beyond. Given the well failure experienced at its Lincoln storage field, AIC argues that it should log every well, at the pace identified, to assure the safety, integrity, and reliability of its well assets. AIC maintains that a reduction in the Company's planned maintenance activities would increase the risk of operating the wells, and potentially reduce the integrity, reliability, deliverability or safety of these assets.

According to AIC, the record contains the details of the activities planned for 2016—and 2015, which include well logging (measuring and recording the well's attributes), wellhead maintenance (testing and repairing the wellhead), well work (e.g., cleaning out the well), well testing (i.e., measuring the well's flow), and reservoir modeling. For each of these categories, the Company states that its Rebuttal Testimony explains the reasons for the activity, the ratepayer benefits, and the bases for the anticipated spending in the test year. For example, AIC notes that well logging—the principal investigation and evaluation tool of the reservoir and wellbore—allows AIC to monitor the well's integrity, ensuring the wells are available for injections and withdraws, and mitigating the risk of loss of gas. AIC explains that wellhead maintenance lessens the risk of a malfunction during operation. Well work and well testing address issues with restrictions on the flow of gas into and out of the reservoir. And reservoir modeling provides AIC with a means to measure the effects of operational changes on a well's performance. The Company also explains the changes in costs for these categories of activities for 2013-2016 and provides data that demonstrates that spending for these activities is expected to remain at or above test year levels in 2017.

The AG claims that the Company has not explained whether the issues with well materials and integrity identified during the well maintenance performed in 2014 were “anomalously high” compared to issues identified in prior years. AIC states that the AG seemingly forgets that there has not been a systematic testing and logging of AIC's wells in recent years. It is expected that the well cleanouts, valve replacements, well testing, well logging, and other maintenance work conducted in 2015 and 2016 will identify other

corrective actions that need to be taken to ensure the ongoing integrity and performance of the assets. The AG also points out that Mr. Colyer admits in cross-examination that the Company was providing safe and reliable service in 2013, when it spent less on maintenance activities. The Company notes, however, that it had not identified the issues with well integrity and well materials in 2013. The Company also had not developed its comprehensive maintenance plan and the detailed projects in AIC Exhibits 22.9 and 22.10 in 2013. AIC maintains that the planned test year activities are proactive, preventive maintenance to safeguard against future well failures. The fact that AIC spent less on well maintenance in 2013 or 2014 does not mean that it can continue to spend those lower amounts, without the reliability and performance of the Company's storage assets deteriorating.

(ii) AG Position

The AG notes that the Company spent approximately \$726,000 to operate and maintain storage wells in 2013. In 2014, O&M expenses increased four-fold to \$3.1 million. For 2015, the level of expense is forecasted to double to \$6.3 million and then increase slightly to \$6.4 million in 2016. AG Ex. 2.0 REV. at 33. AG witness Coppola observes that, in its initial filing, the Company presented no evidence about a multi-year comprehensive plan for the well maintenance program, including cost, scope, and timeline. The AG notes that Mr. Coppola, not seeing any evidence to support the large increase in cost from 2014 to 2015, recommended that the Commission allow recovery only at the 2014 expense level, amounting to \$3.1 million. *Id.* at 34.

The AG notes that AIC witness Colyer testifies for 14 pages in his Rebuttal Testimony about the importance of well maintenance; however, he does not explain why a nine-fold increase from 2013 expense levels is necessary in 2016. AIC Ex. 22.0 2d REV. at 49-63. The AG states that Mr. Colyer points in Surrebuttal Testimony to a well failure in 2014 and other findings of wells needing further work. AIC Ex. 38.0 at 33. The AG further states that Mr. Colyer does not explain whether, or why, these discoveries during 2014's well inspections were anomalously high compared to inspections in prior years. The AG notes that Mr. Colyer admits in cross-examination that the Company was providing safe and reliable service in 2013, when it spent only \$726,000 on well maintenance. Tr. at 123. Thus, according to the AG, AIC does not establish why the 2014 level of well maintenance activities was insufficient, either that year or beyond, to provide safe, adequate, and reliable gas delivery service. The AG does not dispute that AIC's injection wells, withdrawal wells, and gas storage observation wells may require increased maintenance, and the AG also agrees that the failure of a well at the Lincoln storage field in 2014 was a serious incident that may have warranted new inspection activities. However, the AG does not see how AIC has justified the specific level of maintenance it proposes to do in 2015 and 2016.

The AG notes that AIC witness Colyer stated in his Rebuttal Testimony that the Company is initiating a program in 2015 of doing neutron and Vertilog logging on all of its wells over an eight-year period (AIC Ex. 22.0 2d REV. at 52), but he did not explain why eight years is the appropriate cycle. The AG also notes that Mr. Colyer did not explain why wellhead maintenance, well work, and reservoir modeling needed to increase so drastically in 2015 compared to 2014 activities. The AG notes that AIC Exhibit 22.0 2d

REV. at 53-62 and AIC Exhibit 22.10 contain lengthy descriptions of the activities planned for 2016 but no explanation for the ramping up from the 2014 level of activity. The AG notes that in discovery responses, AIC witness Colyer explained the increases in each of those categories. For well logging, he stated that “[t]he increase [of \$1.196 million] from 2014 to 2015 is primarily due to the activities specified in AIC Exhibit 22.9. The program described includes a new program that has not been previously implemented [the 8-year neutron log and Vertilog program].” AIC Ex. 38.9 at 1. For wellhead maintenance, “[t]he increase [of \$118,000] from 2014 to 2015 is primarily due to the activities specified and planned in AIC Exhibit 22.9 under project #J0125 Well Head.” *Id.* at 3. For well work, “[t]he increase [of \$1.856 million] from 2014 to 2015 is primarily due to the activities specified and planned in AIC Exhibit 22.9 under project #J0127 Well Work.” *Id.* at 5. For well testing, “[t]he decrease [of \$15,000] from 2014 to 2015 is primarily due to . . . performing an extended bottom hole pressure test at Hillsboro storage field in 2014 and not performing the same test in 2015.” *Id.* at 7. For reservoir modeling, “[t]he increase [of \$207,500] from 2014 to 2015 is primarily due to the activities specified and planned in AIC Exhibit 22.9 under project #J0124 Res. Simulation.” *Id.* at 9. And for other well expenses, “[t]he decrease [of \$216,000] from 2014 to 2015 is primarily due to a decrease in overtime labor costs with a return to more typical winter conditions in 2015, as compared to the extreme winter conditions experienced in 2014.” *Id.* at 11. The AG believes it is telling that AIC provides persuasive, commonsense explanations for decreases but no explanation for increases, except to point in each case to a list of planned activities that is more expansive than the previous year’s activities.

In summary, the AG recommends that the Commission adopt Mr. Coppola’s proposal to allow recovery of \$3.1 million for this program, a reduction of \$3.3 million from the Company’s request.

(iii) Commission Analysis and Conclusion

The Commission sees that AIC requests \$6.4 million to operate and maintain storage wells in the 2016 test year, which the AG proposes to reduce to \$3.1 million. The Commission agrees with AIC that the evidence in the record does not support the AG’s proposed adjustment to cap recovery of well-related maintenance expenses at 2014 levels. In reviewing AIC Ex. 22.10, the Commission finds support for the Company’s proposed test year expense. This exhibit shows that the Company has detailed the list of activities planned for 2016 and explains the field, activity, estimated cost, and planned timetable for the activities.

The record also shows that the additional activities planned for 2015 and 2016 are necessary to assess the conditions of the Company’s storage wells and ensure the future integrity, reliability and safety of the assets. The Commission finds that AIC’s maintenance plan for its storage wells, and the related expenses, are prudent and reasonable. The Commission declines to adopt the AG’s adjustment.

b. Compressor-Related Work

(i) AIC Position

Compressor units are necessary to inject gas into or withdraw gas from a storage field. They provide concrete benefits to customers in the form of lower gas prices due to

price hedging, peaking capabilities to reduce pipeline capacity charges, and overall system reliability and operational flexibility. The Company owns and operates 28 compressor units (25 electric motor driven), at 12 different sites for injection or withdrawal operations, which run for approximately half of the year.

Historically, AIC has performed the routine maintenance on these units, as recommended by the manufacturer. The median year of installation, however, for these units is 1967. Consequently, AIC argues, the compressors have reached the age (and operated enough hours) where additional preventive maintenance is prudent to avoid a potential failure that could negatively impact safety and reliability of the storage fields.

AIC argues that recent events and other factors make it imperative that the Company be more proactive to lessen the risk of future failures. AIC states that the following signal a need for additional preventive maintenance: the increase in compressor failures the past four years, the recent failure of the compressor at the Hookdale storage facility in 2014, the overall increase in compressor failures, and other factors (e.g., age, operating hours and schedule, etc.) that make future failures likely to occur. AIC explains that these factors signal that additional preventive maintenance is needed to avoid a potential compressor failure, which could negatively impact safety and reliability.

The record identifies the specific additional maintenance activities that AIC plans to perform: the new annual compressors teardowns and inspections (two per year) and expanded inspection of 4 Kv motors. And the record identifies the estimated costs for the activities. The compressor teardowns and inspections (two per year) are projected to cost \$393,304. The compressor motor inspections are projected to cost \$42,500. The Company states that these amounts would fund the same types of activities in future years. The Company notes that these compressor failures could not have been discovered and prevented through the routine maintenance recommended by the manufacturer. The Company further claims that it cannot fund the routine and additional maintenance activities with the reduced budget proposed by AG witness Coppola.

The AG questions whether 2013 expenses were unusually low to make them not representative of a normal amount of expense (excluding the additional activities). But AIC argues that the record provides reasons why expenses were lower in 2013. For example, according to the Company, it incurred lower expenses at the Ashmore storage field due to recent compressor replacements. The Company states that it also incurred less expense at the Shanghai and Sciota storage fields because compressor valve maintenance, which was performed in 2012 and 2014, was not required in 2013. The Company argues that this evidence shows that selecting 2013 expenditures as the “base amount” is arbitrary and that AIC requires the incremental expenses to fund the additional maintenance.

AIC avers that the routine maintenance has not, and will not, prevent future equipment failures from occurring while the compressors are in operation. The proposed additional maintenance activities seek to identify and prevent these potential failures, while the equipment is not in operation and before the failures occur, thereby reducing the risk of a reoccurrence of a failure similar to the Hookdale incident. The AG’s suggestion that the Commission should defund AIC’s planned preventive maintenance

program is not the prudent way forward to maintain the compressors in good working condition and ensure that customers are fully benefiting from the assets. Without that funding, the Company argues that it would be left to wait until a compressor fails during operation, creating risks to life and property, and then rebuild it, like what happened in 2014.

(ii) AG Position

The AG notes that the Company spent \$250,000 to maintain compressor station equipment in 2013, and \$903,000 in 2014. According to the AG, with a one-time unusual expense to rebuild a storage field compressor removed, 2014 normalized expense was \$403,000. AIC Ex. 22.0 2d REV. at 64. The AG says that AIC projects expense of \$494,000 in 2015, and a much higher figure of \$940,000 in the test year of 2016. AG Ex. 2.0 REV. at 34; AIC Ex. 22.0 2d REV. at 64. According to the AG, the Company explains the jump from 2015 to 2016 as due to increased activities related to compressor teardown and inspections, and increased compressor motor inspections on 4Kv units. AIC Ex. 22.0 2d REV. at 66. The AG notes that in light of the inadequate justification for the near-doubling of projected expense from 2015 to 2016, Mr. Coppola recommended allowing recovery only at the 2015 projected level of \$494,000. *Id.* at 35. The AG states that this amount is in line with 2014 normalized expense and 2015 projected expense. The AG further observes that its recommended recovery amount is nearly twice what the Company spent on the same type of maintenance in 2013. AG Ex. 5.0 at 42.

The AG notes that Mr. Colyer explained at length in his Rebuttal Testimony why, allegedly, the Company's gas storage compressors require additional maintenance work such as teardowns and inspections. AIC Ex. 22.0 2d REV. at 64-72. The AG acknowledges that Mr. Colyer cited, in particular, the failure of a compressor at AIC's Hookdale storage facility in 2014 as a reason to accelerate maintenance that could identify and address potential failures before they occur. *Id.* at 66. The AG avers that Mr. Colyer did not explain, however, either in his Rebuttal Testimony or Surrebuttal Testimony (AIC Ex. 38.0) why the incremental activities for 2016 did not begin in 2015 – after the Hookdale failure made the potential danger posed by aging compressors blatant. Mr. Colyer testified that there was “never any discussion” within the Company about possibly starting the new teardown and other maintenance programs in 2015. Tr. at 137. The AG speculates that the Company may have waited past 2015 to incur the incremental expense until it could recover the cost through a new rate case. AG Ex. 2.0 REV at 35. Mr. Colyer denied that in cross-examination, however. Tr. at 137.

As the AG notes, Mr. Colyer suggests that disallowing \$446,000 of the Company's proposed 2016 recovery level of \$940,000 would “not even provide for the cost to perform manufacturer's recommended routine maintenance.” AIC Ex. 38.0 at 36. However, notes the AG, in cross-examination, Mr. Colyer admits that the proposed incremental spending for 2016 is “incremental to what we've established as our manufacturer recommended maintenance.” Tr. at 126-127. The AG finds it hard to understand how Mr. Coppola's proposal, then, would hinder the Company's ability to do manufacturer recommended maintenance. Additionally, the AG asserts that some of the spending done in 2015 may not need to recur in 2016; the Hillsboro unit repair done in 2015, for example, is not projected to recur in 2016. Tr. at 136 (“We're not aware of any other repairs or operating

issues at the moment”). The AG does not understand why 2015 spending must continue to 2016 and \$446,000 of new spending must be added to the agenda.

In summary, the AG urges the Commission to adopt Mr. Coppola’s proposal to allow recovery for compressor station maintenance only at the 2015 expense level of \$494,000, a reduction of \$446,000 from the Company’s request.

(iii) Commission Analysis and Conclusion

The Commission agrees with the Company that the AG’s adjustment to reduce test year expense for compressor-related maintenance is not supported by the record. The record shows that there is a need for additional, preventive maintenance to lessen the risk of future compressor failures, while the equipment is in operation. Also, the record identifies the additional activities, their costs, and the benefits of assuring that the equipment continues to perform safely and reliably.

Although the AG relies on its cross-examination of AIC witness Colyer, the Commission finds the exchange not helpful to the AG’s argument. Indeed, Mr. Colyer states that the additional spending for compressor teardowns is required because the compressors “have reached the age now where additional maintenance is prudent to avoid a potential failure.” Tr. at 131. Also, earlier during the question and answer, Mr. Colyer explains the potential harm that can result from compressor failure stating that it could “cause harm to human life as well as property.” Tr. at 126. It is clear from the evidence provided that the routine, manufacturer recommended maintenance is not sufficient based on the age of this equipment. The Commission notes that the compressor units’ median year of installation is 1967. AG Ex. 22.0 2d REV. at 66.

The Commission finds that the AG’s adjustment would not allow the Company to perform both routine maintenance and the additional activities needed to ensure the equipment performs properly and safely. For this reason, the Commission finds that the AG’s adjustment should not be adopted.

9. Sales Forecast – Test Year Billing Determinants

a. AIC Position

In proposing an increase in gas rates, AIC explains that to determine its revenue deficiency - the amount by which rates must increase from present rates to allow AIC to recover the revenue requirement - AIC must also forecast its present rate revenues in the future test year. This requires establishing test year billing determinants, by applying the Company’s current rates and rate structure to forecasted deliveries of natural gas to customers, plus the cost of natural gas delivered, as well as other miscellaneous charges. AIC explains that forecasted deliveries are determined on a weather-normalized basis, which means that they are calculated based on a “normal” year, weather-wise. The normal year is in turn determined through a statistical analysis of historical weather data.

The Company states that it based its 2016 test year gas sales and billing determinants on a study of the ten-year normalization period spanning 2004-2013, which was the best sales and billing data available at the time the Company prepared and filed its case. Staff witness Allen supports the use of AIC’s proposed billing units. The AG

proposes, however, to update the ten-year normalization to reflect the period spanning 2005-2014 (rather than 2004-2013).

AIC contends that the AG essentially asks the Company to perform an update of its test year billing determinants. But, AIC asserts that Part 287 of the Commission's Rules sets forth specific requirements for the timing and support of any utility update to its forecast. 83 Ill. Admin. Code 287.30. In particular, those rules require that other schedules affected by the update also be updated. 83 Ill. Adm. Code 287.30(a), (d). AIC argues that the AG does not propose that any related schedules or information be updated with the updated normalization period, nor explain how the proposal would otherwise comply with the test year update rules.

According to AIC, numerous other items would have to be updated. AIC notes that the embedded cost of service study relies upon test year sales in its allocation factors used to allocate rate base and expenses among customer classes, and that if the AG's proposal is adopted, these allocation factors would have to be updated mid-case, resulting in changes to class cost responsibility, as well as the constrained revenue requirements allocated to various classes. Further, AIC explains that the rate zone-level revenue requirements sponsored by Mr. Stafford rely on present rate revenue (which would change under the AG's proposal) to apportion certain costs among the three rate zones. Adopting the AG's proposal, AIC asserts, could result in the need to update these zone-level allocation factors that determine rate zone revenue requirements, resulting in changes to rate zone allocated costs, which in turn are relied upon by Mr. Schonhoff for rate zone class cost of service studies and Ms. Althoff to develop rate class pricing.

According to AIC, the various items that would need to be updated also illustrate how disruptive the AG's proposal would be if routinely carried forward to future rate cases. Weather normalized sales information, including the time period relied upon to base "normal" weather, is provided as part of the Part 285 Schedule E-4 filing requirements. From the time a utility files its rate request until the time of Staff and Intervenor direct testimony, AIC explains, several months usually lapse, which would allow for a recalibrating of sales to the most recent average weather in any case. AIC argues that changing sales estimates mid-proceeding would generate additional work for parties in the case and interject added opportunity for misunderstanding or error concerning the utility revenue estimates, and ultimately the rate increases need. This disruption, AIC explains, is ultimately unnecessary because the adoption of Volume Balancing Adjustment Rider ("Rider VBA") would mean gas delivery service ("GDS") -1 (residential) and GDS-2 (small general) customers would ultimately pay the same amount of variable delivery service revenue, with or without AG's proposal.

b. AG Position

The AG states that in addition to evaluating potential operating expense and rate base adjustments to the Company's forecasted test year, it is important to analyze whether the Company's forecast of revenues to be received from customers once new rates are set is accurate and reasonable. That analysis, states the AG, requires a review of the billing determinants selected by the Company for purposes of calculating revenues.

The AG states that the Company determined the pro forma 2016 test-year base rate revenues under present rates by applying its presently authorized base rates for gas service to forecasted test year billing determinants. The AG states that the 2016 forecasted therm sales for the weather sensitive classes of customers reflect the ten year normal heating degree days (“NHDD”) for the years 2004 – 2013. AG Ex. 1.0 at 14. The AG states that as explained on AIC Schedule E-4(2)(a), the Company is seeking to use the optimal rolling period for normal weather determination, and that, based on its studies, a ten-year average is a better predictor of future near term annual HDD than other periods sometimes used to determine annual NHDD, such as a thirty-year average. *Id.* at 14.

The AG states that in response to Data Request AG 6.04, the Company provided the ten-year average HDD based on the years 2005 – 2014. Based on the justification for the use of the ten-year average on AIC Schedule E-4(2)(a), AG witness Effron concluded that it is appropriate to use the most recent ten-year average to determine the NHDD. The AG thus advocates that the data for the ten-year period 2005-2014 should be used to determine the NHDD used in the forecast of test year billing determinants. *Id.* at 15.

The AG avers that based on the updated NHDD, Mr. Effron proposes an adjustment to 2016 pro forma test year base rate revenues that increases pro forma test-year revenues under present rates by \$1,067,000. The AG urges that adjustments to test-year billing determinants should also be incorporated into the design of the new rates. The AG states that if the Company’s proposal to implement Rider VBA is approved, then the increased billing determinants would also be reflected in the determination of the Rate Case Revenue to which the Actual Revenue is compared for the purpose of calculating the Volume Balancing Adjustment. *Id.* at 16.

The AG notes that in response to this adjustment, AIC witness Jones suggests that such updating would not be good policy. Jones states that “over the course of several years and rate cases, one would expect any mid-proceeding adjustment to have little to no long-term impact on either the utility or our customers” and adds that “[c]hanging sales estimates mid-proceeding generates additional work for parties in the case and interjects added opportunity for misunderstanding or error.” AIC Ex. 23.0 at 11.

The AG asserts that these are hardly valid criticisms of Mr. Effron’s proposal to update the NHDD for the purpose of determining weather-normalized test year sales. The AG argues that Mr. Jones’ criticism regarding the long-term effect of updating the NHDD is inconsistent with the basic premise for using a ten year period, rather than – say, for example, a thirty year period - to determine the NHDD. According to the AG, a ten-year period is employed because the most recent ten-year period is deemed to be a better predictor of near-term prospective heating degree days than a longer historic period, such as thirty years. The AG states that if the most recent ten-year period is a superior predictor of NHDD, then the Commission should use the most recent ten-year period, not some older ten-year period to adjust billing determinants. AG Ex. 4.0 at 5-6.

The AG notes that AIC then complains that adopting Mr. Effron’s proposal would require updating the apportionment of costs and rates to AIC’s customer classes and rate zones. AIC suggests that the proposed adjustment would be disruptive and would generate additional work. AIC Ex. 23.0 at 11-12; AIC Ex. 39.0 at 5. According to the AG,

AIC's complaint seems to suggest that the Commission should never entertain proposed billing-determinant adjustments from intervenors or Staff. Yet, notes the AG, in AIC's previous gas delivery rate case, the Commission considered and ruled on extensive arguments from the AG, CUB, Staff, and AIC on the issue of forecasted test-year billing determinants in non-residential rate classes. Docket No. 13-0192, Order at 90-99. The AG also notes that in ComEd's first electric formula rate case, the Commission adopted an intervenor-proposed adjustment on billing determinants. The AG states that Mr. Effron's proposal entails adjustments to only six underlying numbers: the number of therms used per residential customer in each of the three rate zones and the number of therms used per commercial customer in each of the three rate zones. AG Ex. 4.1 at 14; AG Ex. 1.0 at 15. The AG argues that it is implausible that AIC would have a difficult time entering the six updated numbers into its rate design spreadsheet model and adopting the resulting changes. The AG also notes that Mr. Effron has already performed the required additional work. AG Ex. 4.1 at 14.

The AG notes AIC's point that the adoption of Rider VBA is uncontested in this proceeding and likely to be adopted, meaning that billing determinant forecasts will make no difference to the actual monies that customers will ultimately pay. AIC Ex. 23.0 at 12. However, the AG states that to the extent that the Company's proposed billing determinants result in excessive rates to achieve a given revenue requirement, the average Illinois customer faces challenging household budgeting and cannot finance an initial over-payment of utility bills at cheap borrowing rates the same way the Company can finance cash shortfalls.

The AG asserts that the most important point the Commission should consider is that AIC fails to refute Mr. Effron's basic point in proposing the adjustment: that the most recent data should be used to determine the ten-year average NHDD. AG Ex. 1.0 at 15. The AG states that if more recent actual data is available than what AIC initially provided, the Commission should use it in setting AIC's rates. The AG argues that for all of the reasons stated above, the Commission should adopt Mr. Effron's well-reasoned adjustment to test year billing determinants, incorporating the Company's own selected and most recent ten-year NHDD forecast, which results in an adjustment to 2016 pro forma test-year base rate revenues under present rates by \$1,067,000.

c. CUB/IIEC Position

CUB/IIEC argue that the Commission should adopt AG witness Effron's calculation of billing determinants using the most recent NHDD data available. CUB/IIEC also recommend that Mr. Effron's adjustments to test-year billing determinants should also be incorporated into the design of the new rates. Additionally, if AIC's proposal to implement a Rider VBA is approved, then the increased billing determinants should also be reflected in the determination of the Rate Case Revenue to which the Actual Revenue is compared for the purpose of calculating the Volume Balancing Adjustment. AG Ex. 1.0 at 16.

d. Commission Analysis and Conclusion

The parties frame this issue differently. The Company wants the Commission to consider whether it is appropriate to require updates to its initial filing in the middle of the

proceeding. The AG asserts that the issue is for the Commission to decide which ten-year average best forecasts 2016 usage. The Commission agrees with the AG.

AIC claims that Section 287.30 of the Commission's rules bars the update proposed by the AG. The Commission sees no such prohibition in the language of the rule. Thus, the Commission sees no legal or practical reason why the most recent data should not be used to calculate the ten-year NHDD, which will set the billing determinants used to calculate AIC's test-year rates needed to achieve the authorized revenue requirement. The Commission also agrees with the AG that making the required change should not be unwieldy for the Company. The Commission adopts the AG's proposal to use 2005-2014 as the ten-year period for calculating the NHDD, rather than AIC's proposal to use 2004-2013.

C. Approved Operating Income Statements

Upon giving effect to the determinations above, the Commission finds that the operating statements for AIC are hereby approved as shown in the schedules contained in the Appendices to this Order.

IV. RATE OF RETURN

The overall rate of return for AIC, incorporating the stipulated cost of common equity of 9.60%, is 7.65%. Staff Ex. 9.0, 2 and Schedule 9.02. This issue is uncontested and the Commission finds the proposed resolution to be reasonable. It is therefore adopted and summarized in this table:

	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-term Debt	47.43%	5.79%	2.75%
Short-term Debt	1.34%	0.45%	0.01%
Preferred Stock	1.23%	4.98%	0.06%
Common Equity	50.00%	9.60%	4.80%
Bank Facility Costs	_____	_____	<u>0.04%</u>
Total Capital	100.00%		
Weighted Average Cost of Capital			7.65%

V. COST OF SERVICE

A. Resolved Issues

1. Use of AIC's Cost of Service Study (but for V.B.1.)

One goal of the Act is to ensure that the costs of supplying utility services are allocated to those who cause said costs to be incurred. 220 ILCS 5/1-102(d)(iii). A cost of service study is used to determine the responsibility of ratepayers for the costs incurred by their utility provider. The results of the cost of service studies serve as a guide for determining the level of revenues to be received from the various customer classes and designing rates to recover the same.

In this proceeding, AIC prepared three cost of service studies (one for each rate zone), with the rate class designations of GDS-1 (Residential), GDS-2 (Small General), GDS-3 (Intermediate General), GDS-4 (Large General), GDS-5 (Seasonal), and GDS-7 (Special Contract). The cost of service studies performed by AIC result in a revenue requirement determination, or target revenue collection, for each of AIC's rate classes under equalized rates of return. These base rate revenues form the basis of AIC's proposed class revenue responsibility and rate design, subject to small changes to the allocation method used for underground storage assets, and an updated cost of service study model to reflect 2016 Test Year cost information. AIC also updated the allocation factors to incorporate the appropriate test year information.

Staff agrees that AIC's cost of service studies appropriately assign costs to the various functions and rate classes, while making modifications toward rate uniformity. Given that no other party contests the use of AIC's studies, the Commission finds the studies to be reasonable and are hereby accepted.

2. Allocation of Underground Storage Assets

As compared to previous studies, the cost of service study presented by AIC includes two changes to the allocation method used for underground storage assets. Two allocation factors are utilized to allocate costs of underground storage assets, DEMSTORT and DEMSTOR. Each of these allocation factors was previously determined as a separate allocation factor for each rate zone; whereas each of these allocation factors are currently determined as a single allocation factor to be applied consistently across all three rate zones. Staff accepts these changes. Staff believes that AIC's proposed modification to these allocation factors to use a single allocation factor for all rate zones instead of three different allocation factors for both DEMSTORT and DEMSTOR is consistent with the goal of rate uniformity. Furthermore, Staff states that AIC's embedded cost of service studies appropriately assign costs to the various functions and rate classes, while making modifications toward rate uniformity. The Commission finds that AIC's proposed embedded cost of service studies are reasonable and are hereby approved.

3. Rate Zone Allocation of Plant Additions after September 30, 2010

AIC's three rate zones correspond to the service territories of the three legacy utilities, CIPS, CILCO, and IP, that merged to form AIC in Docket 10-0517. The

Commission directed AIC to retain separate historical plant in service cost information for each rate zone through September 30, 2010. In this proceeding, AIC proposes to modify the allocation factors for transmission and distribution plant additions that have occurred since that date, to better align with cost causation. This is because, after September 30, 2010, AIC recorded costs at the company (Ameren Illinois) level, rather than by legacy rate zone. Further, when the existing allocation factors were chosen, AIC had just merged into a single utility, and many of the allocation factors were based on either historical plant balances or historical expenses. Staff agrees that AIC's proposed modification is also appropriate given the time elapsed since the mergers and the fact that many common costs support AIC's customer base across all rate zones. Staff evaluated AIC's proposed modification to the allocation factors for transmission and distribution plant additions that have occurred since September 30, 2010, and recommends that the Commission approve AIC's proposed modification because it better reflects cost causation. The Commission finds AIC's proposed modification reasonable and it is hereby approved.

B. Contested Issues

1. Allocation of Demand-Related T&D Costs

a. AIC Position

AIC proposes to use the peak and average method to allocate demand-related transmission and distribution ("T&D") main costs as it has before in Docket Nos. 13-0192, 11-0282, and 07-0585 through 07-0590 (Consol.). AIC Ex. 24.0 at 2; see, e.g., Docket No. 13-0192, Order at 179; Docket No. 11-0282, Order at 135; Docket Nos. 07-0585 through 07-0590 (Consol.), Order at 265-269. The Company notes that IIEC has objected to the use of this methodology in previous gas rate cases and that it argues this methodology is inappropriate in this proceeding as well. AIC states that the Commission has rejected alternate approaches proposed in those recent cases, and it should continue to approve the peak and average method in this case instead of the design day demand methodology recommended by IIEC.

AIC explains that the peak and average method is an allocation method based in part on design day demand (peak daily therms) and in part on average demand (average daily therms), which is a function of customer class annual usage (total annual therms). Although this method takes into account both the peak and the average demand of each rate class, the method relies mostly on design day demand. AIC asserts that the peak and average method gives significant consideration to the design day demand in that it relies primarily on customer peak demand. AIC points to the National Association of Regulatory Utility Commissioners' Gas Distribution Design Manual ("NARUC Design Manual") which notes that the peak and average method "allocates cost to all classes of customers and tempers the apportionment of costs between the high and low load factor customers." *NARUC Design Manual* at 27-28. AIC states that one allocation factor should be used to allocate all demand-related T&D main costs and claims that the peak and average method produces the best results.

AIC argues that IIEC's recommendation is not supported by the record evidence and does not best reflect cost causation. AIC claims that IIEC's proposal would result in a shift of approximately \$6 million of revenue requirement responsibility to the residential

class while removing approximately \$5.5 million of revenue requirement responsibility from the GDS-4 customer class. This revenue requirement shift would be compounded year after year under this recommendation and rate according to AIC. AIC argues that the method would also completely remove all demand-related T&D costs from the GDS-5 class, a class of customers who utilizes T&D mains to receive natural gas service, are seasonal, and who have significant capacity needs during a time other than the design day.

AIC notes that IIEC argues that the peak and average method is inappropriate for ratemaking in this proceeding because it does not appropriately reflect how the costs associated with T&D mains are incurred by the Company. However, AIC asserts that it has repeatedly argued, in this and previous dockets, that this method does reflect cost causation, and the NARUC Design Manual recognizes incorporation of average use within a demand allocator as an acceptable approach.

AIC takes issue with IIEC witness Collins' assertion that the AIC natural gas T&D system is designed using customer peak demands and thus is better aligned with the design day demand allocator. AIC argues that its engineers also use peak hourly demand and operating pressure to determine service adequacy. In AIC's view, Mr. Collins oversimplified a complex gas system and portrayed the design day demand method of allocation as the absolute best. However, AIC argues that in reality, there are localized portions of the gas distribution system that peak at times other than the design day, and that this is most apparent in the GDS-5 class. Furthermore, AIC contends that at least two additional factors—peak hourly demand and operating pressure—play a role in the development of the design criteria and are used to evaluate service adequacy for the T&D system.

AIC notes that the Commission has rejected several of Mr. Collins' recurring arguments in previous gas rate cases. In Docket No. 04-0476, for example, IIEC argued (unsuccessfully) that the peak and average method resulted in excessive allocation of T&D costs to large volume customers. *III. Power Co.*, Docket No. 04-0476, Order at 65 (May 17, 2005). In that docket, as here, AIC notes that Mr. Collins' position assumed that the cost of T&D main plant attributable to large users could be ascertained, and he endorsed an allocation factor that was consistent with the known costs. *Id.* AIC observes that in Docket No. 04-0476, the Commission noted that selection of an allocation factor is necessary because it is difficult or impossible to directly assign the costs of transmission and distribution plant among customer classes. *Id.* Because the cost of transmission and distribution plant among customer classes cannot be directly assigned, AIC argues that it cannot be said that its application results in "over-allocation." Therefore, AIC states that Mr. Collins' arguments related to the peak and average method and an alleged failure to reflect the costs incurred by the Company must be rejected in this proceeding.

AIC maintains that the Commission should also reject Mr. Collins' argument that the peak and average method results in the GDS-4 class subsidizing the cost of capacity to other classes that have shortfalls in capacity needed to meet their peak day demand requirements. AIC states that this argument is based on very high-level generalizations and inappropriately implies absolute certainty around what the actual cost of capacity is

for customers in each rate class. AIC asserts that this information has not been developed or offered in this proceeding.

AIC contends that the Commission should also dismiss Mr. Collins' argument regarding the peak and average method being a form of rate mitigation because it is not a valid argument. AIC points out that Mr. Collins argues that the peak and average method is an inappropriate means to mitigate rate impact on customers, and "distorts the Commission's ability to gauge how close rates are to cost of service." It is AIC's position that this is a misjudgment of the peak and average method's actual function and operation when utilized by AIC in its cost of service studies. Although the peak and average method may have the effect of tempering costs between high and low load factor customers, AIC notes that this effect is recognized in the NARUC Design Manual as one of the most commonly used cost allocation methods for demand related T&D cost and is not rate mitigation. Instead, the method recognizes the complexities of the gas distribution system and how different customers use the system differently reflecting cost causation.

AIC notes that the Commission has found that "when allocating [transmission and distribution] plant costs an emphasis on average demand is appropriate." *Id.* at 64. In many other cases, the Commission has likewise favored use of the peak and average method. See, e.g. Docket No.13-0192, Order at 179; Docket No.11-0282, Order at 135; Docket Nos. 07-0585 through 07-0590 (Consol.), Order at 265-269; *N. Ill. Gas Co.*, Docket No. 04-0779, Order at 101-102 (Sept. 20, 2005); Docket No. 04-0476, Order at 64-65; *Cent. Ill. Pub. Serv. Co.*, Docket Nos. 02-0798/03-0008/03-0009 (Consol.), Order at 98 (Oct. 22, 2003); *Cent. Ill. Light Co.*, Docket No. 02-0837, Order at 90-91 (Oct. 17, 2003). AIC states that the Commission's rationale for using the peak and average method to allocate transmission and distribution main costs is that these facilities "exist because there is a daily need for such facilities," not solely because there is a need to serve peak demand. Docket Nos. 02-0798/03-0008/03-0009 (Consol.), Order at 98. Thus, the peak and average method "properly emphasizes the average component to reflect the role of year-round demands in shaping transmission and distribution investments." *Id.* AIC argues that Mr. Collins' proposal would achieve the opposite result: complete elimination of the average component. According to AIC, this flies in the face of well-established Commission preference and the rationale on which that preference is based.

AIC contends that the longstanding Commission preference in Illinois for the peak and average method simply belies Mr. Collins' repeated assertions that the Commission's decisions on the allocation of T&D mains costs have "varied over time." AIC argues that Mr. Collins admitted that the Commission's identified preference for the peak and average method had no impact on his recommendation in this proceeding. He also admitted that there are no facts that were not apparent or available to him in Docket No. 13-0192 that are now relied upon by him in this docket to support his conclusion that T&D mains should be allocated using design day demands. AIC further argues that other Illinois utilities use the same or similar methods. For example, the Commission approved use of the peak and average method for allocating North Shore Gas Company and the Peoples Gas Light and Coke Company's demand-related T&D costs in Dockets Nos. 14-0224/14-0225 (Consol.). *North Shore Gas Co.*, Dockets Nos. 14-0224/14-0225 (Consol.), Order at 148 (Jan. 21, 2015). AIC maintains that the fact that IIEC has repeatedly and unsuccessfully

made this argument against the peak and average method and now, with no new facts, amounts to a disregard for the Commission's clear preference on this issue.

AIC argues that Mr. Collins' assertion that three jurisdictions other than Illinois recognize the design day demand or coincident demand allocation as an appropriate cost allocation method for T&D mains costs is not compelling. AIC avers that the use of the peak and average method is consistent with current industry practice in Illinois and elsewhere. This is evident in AIC's opinion based on the Commission's strong preference for the peak and average method and Mr. Collins' admission that he is aware of four other jurisdictions that have utilized the peak and average method.

AIC concludes that its proposal to use the peak and average method for the allocation of all demand related T&D main cost is appropriate given the evidence in this proceeding. AIC argues IIEC's proposal should be rejected because it is contrary to the long-standing and well-established Commission practice related to the allocation of demand related T&D main costs.

b. AG Position

The AG asserts that IIEC has not offered any arguments that support a reversal of the Commission's historical and well-reasoned adoption of the Company's peak and average method of allocating AIC's cost of service. This methodology recognizes that customers use T&D mains both to meet peak demand and to provide energy throughout the year. AG Ex. 5.0 at 3. The AG states that IIEC recommends that T&D mains, as well as certain other demand-related costs, should be allocated among the customer classes based solely on design day demand.

The AG points out that both AG witness Rubin and AIC witness Schonhoff provided reasons why the Company's methodology, which is fair to all customers because it uses a combination of peak demand (one of the primary determinants of the diameter of the main, which can increase its cost) and annual energy usage (a fair method to apportion the costs of a shared facility that is equally essential to all customers who connect to it) to allocate cost, should be adopted by the Commission. See AG Ex. 5.0 at 3-9; AIC Ex. 40.0 at 2-3. The AG asserts that Mr. Rubin concurred with Mr. Schonhoff's careful critique of the IIEC recommendation and urges the Commission to reject the recommendation. AG Ex. 5.0 at 8-9.

c. IIEC Position

IIEC recommends that this Commission adopt its proposal to allocate the fixed costs of the T&D system to the Company's rate classes based on a design day demand allocator. IIEC argues that the peak and average method reflected in the Company's cost of service study, contains a number of significant flaws that would be rectified by use of the design day demand methodology (which IIEC notes is also known as the coincident demand methodology). IIEC states the flaws are as follows:

1. The peak and average method does not reflect how the Company actually designs and builds its T&D system, which is primarily based on the design day demand. Use of the design day demand methodology is therefore more

consistent with the principles and goals of cost based rates set out by the Illinois General Assembly in Section 5-102 (d)(iii) of the Act.

2. The use of the design day demand methodology eliminates unnecessary and inappropriate cross subsidies which result from use of the peak and average methodology and which are not consistent with principles of cost causation and fairness.
3. The design day demand methodology is more consistent with principles of cost causation, because it sends more appropriate price signals to customers, thereby promoting more informed and efficient use of scarce resources, than does the peak and average method.
4. The peak and average method improperly double counts the average demand component included in that methodology, whereas use of the design day demand methodology eliminates that flaw.

IIEC believes the evidence in this record shows that the design day demand allocation method is superior to the peak and average method and better aligns with the principal of cost causation.

IIEC argues the primary deficiency in AIC's cost of service study is that it allocates the fixed costs of the T&D system using the peak and average method which allocates costs to each class using both a demand component (design day demand) as well as a volumetric component (average demand) IIEC Ex. 1.0 at 3-4. IIEC states that the design day demand method, which is much simpler, more straight forward and consistent with principles of cost causation, relies on a "peak factor" (design day class demands). AIC Ex. 24.0 at 6. IIEC asserts that the Company's decision to allocate the fixed costs of the T&D system, including plant, depreciation, and expenses, in its cost of service studies using the peak and average method is a flaw that can be corrected by employing the design day demand method.

IIEC submits that the peak and average method is inappropriate for ratemaking in this proceeding because it fails to appropriately reflect how the fixed costs associated with the T&D system are actually incurred by the Company. The peak and average method allocates the fixed costs associated with the T&D system partially on average demand. Average demand is determined by dividing a customer's total annual volume of natural gas delivered by the number of days in the year. However, IIEC notes that the Company does not use total customer throughput or usage to design its T&D facilities. IIEC asserts that as a result, the peak and average method creates subsidies in the allocation of T&D costs among customer classes. IIEC Ex. 1.0 at 8-9.

It is IIEC's position that a utility's selection of a particular cost allocation method should be based on whether that allocation method best reflects class cost causation, resulting in rates that provide accurate price signals to its customers. IIEC states that cost-based delivery service rates will allow customers to make appropriate economic decisions with respect to conservation as well as help customers maintain competitive positions within their respective industries. IIEC believes cost-based rates fairly treat all customers and eliminate subsidies between rate classes.

IIEC notes that allocating costs based on how they are incurred is consistent with the NARUC Design Manual. IIEC notes that AIC witness Schonhoff correctly points out that this manual states that “the most commonly used demand allocations for natural gas distribution utilities are the coincident demand method, the non-coincident demand method, the average and peak method, or some modification or combination of the three.” *NARUC Design Manual* at 27. IIEC argues that despite the fact the NARUC Design Manual recognizes three commonly used methods of allocating demand or capacity charges, the evidence in this record illustrates the design day demand method is the superior method to apportion total costs to the various customer classes in a manner consistent with the incurrence of those costs.

IIEC avers that the Commission’s decisions on T&D systems cost allocation methods has varied and it points out that the Commission has previously approved the design day demand method in Docket Nos. 90-0072, 90-0007 and 91-0586. IIEC Ex. 1.0 at 19. IIEC notes that the Commission changed course in Dockets Nos. 04-0476, 07-0585 through 07-0590 (Consol.), 09-0306 through 09-0311 (Consol.), 11-0282 and 13-0192 and approved the peak and average method despite the precedent of the 90’s dockets. IIEC argues that prior Commission decisions do not constitute binding precedent and the Commission may modify its prior determinations on the basis of new information or reconsideration of the evidence. *Mississippi River Fuel Corp. v. Ill. Commerce Comm’n.*, 1 Ill. 2d 509 (1953); *Citizens Util. Bd. v. Ill. Commerce Comm’n.*, 291 Ill. App. 3d 300, 307 (1st Dist. 1997). IIEC asserts that the Commission is free to change course again based on the record evidence in this proceeding showing the superiority of the design day demand method as compared to the peak and average method.

IIEC claims that the Order in Docket No. 13-0192 reveals the Commission’s rationale for approving the peak and average method was that it believed that T&D facilities exist because there is a daily need for such facilities, not solely because there is a need to serve peak demand. Docket No. 13-1092, Order at 179. IIEC argues, however, that there was little to no evidence supporting the notion that the Company designs its T&D system based on the daily need for the T&D system rather than to meet the system peak demands. IIEC contends that the evidence suggested the contrary. IIEC Ex. 1.0 at 15.

IIEC states that it would be disingenuous not to point out that while AIC firmly supports IIEC’s contention that engineers design the T&D system using design day demands, AIC notes that its engineers also use peak hourly demand and operating pressure to determine service adequacy. AIC Ex. 24.0 at 7. However, IIEC argues these factors have nothing to do with the annual volume of gas delivered to customers and do not justify the introduction of a volumetric component into the allocation of demand-related T&D plant costs as required with the use of the peak and average method. IIEC Ex. 2.0 at 9. Moreover, IIEC asserts that AIC argues that its engineers consider many factors when designing T&D mains, but the Company has failed to provide much by way of specifics. AIC Ex. 24.0 at 10.

Finally, IIEC observes that Illinois is not the only state dealing with allocation of demand related T&D costs. IIEC asserts that the Missouri Public Service Commission

has recently rejected the use of the peak and average method and found that it double counts the average system usage, and for that reason is unreliable. All three of these Missouri rate proceedings involved an AIC affiliate. IIEC believes this shows that AIC is no stranger to the use of other allocation methods and the double counting flaw in the peak and average method. IIEC asserts that it also demonstrates that AIC affiliates are able to comply with these decisions and AIC will be able to do so in Illinois.

d. Staff Position

Staff believes the Commission should accept AIC's proposal to use the peak and average method to allocate demand-related T&D costs. Staff asserts that this is the same methodology used and approved by the Commission in AIC's previous gas rate cases, Docket Nos. 13-0192 and 11-0282, which allocated T&D costs based on a peak and average method, using a combination of design day demand and average demand.

Staff observes that IIEC recommends that the Commission determine the design day method to be the most appropriate cost of service allocation method for T&D main costs. IIEC Ex. 1.0 at 2, 23. In support of this recommendation, IIEC argues that the use of the design day method best reflects cost causation because the Company designs its T&D main system to meet the peak demands of its customer classes. Staff notes that according to IIEC the design day allocation factor ensures that all customers will pay for the capacity necessary to ensure delivery of their firm demands. *Id.* at 23.

Staff explains that the design day allocation factor proposed by IIEC allocates the T&D main costs based on each customer class' demand at the time of the system peak. The peak and average allocation factor proposed by AIC utilizes the design day in part for the peak component as described in the previous statement, and the average component in part. The average component is computed by weighting average daily deliveries of gas by the system average load factor. Staff points to AIC Exhibit 24.0, Table 2, in which AIC witness Schonhoff illustrated the weighting of the peak and average factors derived from the peak and average method by rate zone. Staff asserts that it shows that the peak component comprises the larger portion of the allocation factor. AIC Ex. 24.0 at 12.

Staff states that peak demands are used in designing the T&D system, but, according to AIC, this is not the only factor taken into consideration by the Company. Staff notes that Mr. Schonhoff stated that AIC engineers also use peak hourly demand and operating pressure to determine service adequacy. AIC Ex. 24.0 at 7. In other words, the Company must also consider demand patterns throughout the year in addition to meeting demand during the system peak. Staff explains that this is important because demand must exist throughout the year to generate enough revenue to recover the utility's fixed costs and make the investment viable. Additionally, the system is not in use solely for the coldest days of the year, but rather for every day of the year.

Allocating all T&D mains based on peak demand is problematic in Staff's view because it assumes that T&D investments are all system peak-related, which ignores the fact that the Company considers other factors such as different demand patterns throughout the year through peak hourly demand and also operating pressure to meet reliability.

Staff opines that cost causation should be determined based on which allocation factor most appropriately fits the evidence presented in this proceeding. Given how the Company designs the system, the design day allocation factor does not take into account these other factors. Staff states that if the design day allocation factor is utilized as IIEC proposes, approximately \$6 million of revenue requirement responsibility would be shifted onto the residential class; approximately \$5.5 million of revenue responsibility would be removed from the GDS-4 customer class; and cost allocation of all T&D mains to the GDS-5 customer class would be completely eliminated. AIC Ex. 24.0 at 2.

Further, Staff asserts that the design day allocation factor does not allocate any costs associated with T&D mains to the GDS-5 customer class. Therefore, the design day allocation method shifts the GDS-5 class costs associated with T&D mains to all remaining customer classes. However, the GDS-5 class utilizes T&D mains for natural gas consumption and proportionate costs associated with that use should be allocated to the class according to Staff. Thus, Staff argues that since no T&D main costs are assigned to the GDS-5 customer class, the design day allocation factor does not reflect cost causation for this customer class.

Staff maintains that based on how the Company designs its T&D system, the peak and average method better reflects the cost causation of the Company's system because it accounts for other factors besides peak demand, such as peak hourly demand throughout the year. Additionally, Staff contends that the design day method does not allocate costs associated with T&D mains to the GDS-5 customer class and thus does not represent cost causation accurately for this customer class.

e. Commission Analysis and Conclusion

The Commission declines to adopt IIEC's recommendation to allocate the costs of the T&D system based on the design day methodology. The record supports the continued use of AIC's peak and average methodology to allocate demand-related T&D costs. This is the same method used and approved consistently by the Commission, including in AIC's recent gas rate cases, Docket Nos. 13-0192 and 11-0282. It is also consistent with industry practice as it is recognized by NARUC as an appropriate allocation methodology. Moreover, the evidence demonstrates that the peak and average method recommended by AIC is reflective of cost causation principles, produces fair and reasonable results, and properly emphasizes the role of year-round demands in shaping T&D investments.

IIEC has not offered any arguments that support the adoption of the design day methodology in place of the peak and average methodology. IIEC has not provided any new facts to warrant a departure from the use of AIC's peak and average methodology. Additionally, the Commission concurs with AIC, Staff, and the AG that IIEC's proposed method does not promote equity among all rate classes and it does not follow cost causation principles. Specifically, if the design day allocation factor is utilized as IIEC proposes, approximately \$6 million of revenue requirement responsibility would be shifted onto the residential class; approximately \$5.5 million of revenue responsibility would be removed from the GDS-4 customer class; and cost allocation of all T&D mains to the GDS-5 customer class would be completely eliminated.

However, contrary to IIEC's assertions, the record shows that based on how AIC designs its T&D system, the peak and average methodology better reflects the costs causation of the Company's system since it accounts for other factors besides peak demand, such as peak hourly demand throughout the year.

For these reasons, the Commission adopts AIC's peak and average methodology to allocate demand-related T&D costs instead of IIEC's proposal to use the design day methodology.

VI. REVENUE ALLOCATION

A. Resolved Issues

1. Rate Mitigation

AIC proposes, for purposes of establishing class revenue targets, a revenue allocation approach that entails constraining each class' revenue allocation increase to a maximum of 1.5 times the overall average increase for the class' rate zone. AIC explains that this revenue allocation methodology permits movement toward cost-based rates, but tempers such movement in the interest of mitigating undue customer impacts. Staff recommends that the Commission approve this revenue allocation methodology which was approved in the Company's prior gas rate case, Docket No.13-0192. The Commission finds that AIC's rate mitigation methodology is reasonable and is hereby approved.

VII. RATE DESIGN

A. Resolved Issues

1. Rate Uniformity

As noted by the Commission in Docket No. 10-0517, AIC's costs between several rate classes justify application of a uniform design across rate zones. *Central Ill. Light Co. d/b/a AmerenCILCO*, Docket No. 10-0517, Order (March 15, 2011). In general, AIC developed uniform rates in situations where the rate-zone-level costs for a particular class were within 10% of the total combined class average costs. But in addition to class costs, AIC also considered the prices currently paid by customers in the different rate zones so as to avoid any undue bill impacts resulting from additional movement towards uniformity. In certain situations where present prices differed by rate zone, AIC proposes additional uniformity with respect to some rate components, but continued distinctions with respect to other rate components. Based on its analysis, AIC recommends the following:

- Uniform charges for all GDS-1 customers in all rate zones (Zones I and III were already uniform);
- Uniform charges for all GDS-2 customers in all rate zones (Zones I and II were already uniform);
- Uniform charges for all GDS-3 customers in all rate zones (Customer Charges in Zones I and II were already uniform, but Delivery Charges differed in all zones);

- Uniform Customer Charges, by usage level, for GDS-4 customers in all rate zones, with uniform elimination of Delivery Charges and continued, though increased non-uniform Demand Charges in all rate zones; and
- Uniform Customer Charges for GDS-5 customers in all rate zones and uniform Delivery Charges for GDS-5 customers in Rate Zones II and III (i.e., full uniformity for GDS-5 in Rate Zones II and III).

The Company also proposes that once established, uniformity be retained in future cases. Staff recommends adoption of AIC's proposed movement towards uniformity. Staff testifies that the Company's proposal is "consistent with the Commission's repeated goal of moving toward single-tariff pricing." Staff Ex. 4.0 at 36. Accordingly, the Commission finds that AIC's suggested movement toward rate uniformity is reasonable and is hereby approved.

2. Charges for GDS-3, GDS-4, GDS-5

AIC proposes uniform pricing for GDS-3 customers in all rates zones. With respect to allocating the increase resulting from this case, AIC first adjusted the GDS-3 Customer Charge to recover revenues closer to the customer cost components identified in its cost of service study. AIC then adjusted the Delivery Charges to recover the remaining revenue requirement by increasing by an equal percentage the current weighted average of those charges for Rider S and Rider T customers. Based on the as-filed revenue requirement, this methodology results in class average delivery increases of 17.5%, 29.2%, and 11.5% for Rate Zones I, II, and III, respectively. On a total bill basis, the class average increases would be 7%, 7%, and 4%.

Staff agrees with AIC's proposal, but recommends that if the Commission approves a revenue requirement different from that proposed by AIC, the two types of charges—the Customer Charge and the Distribution Delivery Charge—be determined by cost of service studies based on the new revenue requirement. AIC does not object to this proposal, and states that it plans to rerun its cost of service studies to determine zone- and class-specific revenue requirements and pricing that conform to the Commission's final order.

For the GDS-4 class, AIC proposes Uniform Customer Charges, by usage level, for GDS-4 customers in all rate zones. AIC proposes to eliminate Delivery Charges, but continue with increased non-uniform Demand Charges in all rate zones. Based on the as-filed revenue requirement, AIC's methodology results in class average delivery increases of 24.6%, 11.8%, and 20.5% for Rate Zones I, II, and III, respectively. On a total bill basis, the class average increase is estimated at 6%, 2%, and 4%.

Staff recommends that the Commission accept AIC's proposal. If the Commission approves a revenue requirement different from that proposed by AIC, Staff recommends that AIC retain the as-filed Customer Charges and adjust the other remaining charges accordingly. AIC agrees.

For the GDS-5 class, AIC proposes uniform Customer Charges for GDS-5 customers in all rate zones and uniform Delivery Charges for GDS-5 customers in Rate Zones II and III (i.e., full uniformity for GDS-5 among Rate Zones II and III). Based on the

as-filed revenue requirement, AIC's methodology results in class average delivery increases of 20.9%, 18.3%, and 18.6% for Rate Zones I, II, and III, respectively. On a total bill basis, the class average increase for Rider S customers is estimated at 2%, 15%, and 7%. The total bill average increase for Rider T customers is estimated at 5% for all rate zones.

Staff recommends that the Commission accept AIC's proposed changes for these customer classes. If the Commission approves a revenue requirement different from that proposed by AIC, Staff recommends AIC retain the as-filed Customer Charges and adjust the other remaining charges accordingly. AIC agrees.

The Commission finds that AIC's pricing structure for GDS-3, GDS-4, and GDS-5, utilizing the post-order revenue allocation approach presented on AIC Exhibit 25.0 at page 5, line 83, page 5, line 84, and page 6, line 86, respectively, is reasonable and is hereby approved. Because the Commission is approving a revenue requirement different from that proposed by AIC, the Commission agrees with Staff's recommendation to require AIC to retain the as-filed Customer Charges and adjust the other remaining charges accordingly.

3. Space Heat Study

In Docket 13-0192, the Commission ordered AIC to provide, at the time of its next natural gas rate case filing, information related to a potential bifurcation of the GDS-1 rate class into distinct heating and non-heating subclasses. Docket 13-0192, Order at 195. Specifically, this information was to include (1) a method for distinguishing between heating and non-heating customers, (2) an estimate of the costs that would be incurred by AIC in distinguishing between these types of customers, (3) an estimate of the timeframe necessary for AIC to program its billing system to accommodate the changes, and (4) estimates of costs to serve the two groups. *Id.*

AIC provided this information in AIC Exhibit 10.7, a "GDS-1 Gas Space Heating and Non-Space Heating Analysis." Based on this information and analysis, AIC recommends against bifurcation of the GDS-1 class, citing the costs of the various bifurcation options, as well as the lack of a significant underlying cost difference between the two types of customers.

Staff reviewed this information, and recommends that the Commission not require AIC to implement any of the bifurcation options, provided that the Company's rate design is adjusted to collect 70% of the GDS-1 and GDS-2 revenue requirements through the respective Customer Charge of each class (i.e., shift from an 80/20 SFV design to a 70/30 SFV design). AIC accepts Staff's recommendation, subject to approval of Rider VBA. No party recommends bifurcation of the GDS-1 class into heating and non-heating subclasses in this proceeding. Thus, the Commission finds AIC and Staff's recommended rate design reasonable and it is hereby approved; AIC is not directed to bifurcate the GDS-1 class.

B. Contested Issues

1. Use of Straight-Fixed Variable Design/Setting the Customer Charge in GDS-1 and GDS-2

a. AIC Position

AIC argues that a Straight Fixed Variable (“SFV”) rate design recognizes that a distribution utility’s costs are primarily fixed, and thus sets a fixed charge - the Customer Charge - to recover these fixed costs. This “decouples” a utility’s cost recovery from its volume of sales. According to the Company, the design has a variety of benefits: it recognizes the primarily fixed nature of distribution system costs, promotes utility revenue stability between rate cases, and recognizes natural gas conservation efforts. AIC has an SFV rate design, which the Commission first approved for AIC in 2008. Docket Nos. 07-0585 through 07-0590 (Consol.), Order at 237. Since original approval, the Company has been authorized to collect 80% of its residential and small non-residential (GDS-1 and GDS-2) revenue requirements through a fixed monthly Customer Charge, with the remaining 20% collected from these classes through a volume-based Delivery Charge (i.e., one based on therms consumed).

As to the specifics of the design itself, AIC initially proposed to maintain the current 80/20 SFV design for the GDS-1 and GDS-2 classes. However, to limit the issues contested with Staff, and without waiving its right to challenge or address the issue in the future, AIC agreed to decrease its SFV target percentage from 80% to 70% for the GDS-1 and GDS-2 classes, provided Rider VBA is approved as recommended by AIC, which no party has challenged.

AIC states that this outcome is directionally consistent with recent Commission decisions and, as compared to the current design, will assign more costs to higher use customers and less costs to lower use customers. The AG does not agree. The Company argues, however, that the AG’s position is unfounded, and that the Commission should accept the 70/30 design agreed to by Staff and AIC.

AIC disputes the AG’s argument that an SFV rate design is no longer needed or that the current proposal is inconsistent with natural gas conservation efforts and the intent of the Illinois General Assembly. AIC argues that the AG’s emphasis on “trends” with respect to total therm sales and total revenues are misplaced in that only delivery service revenues are the subject of this rate case and subject to the SFV design. AIC argues that the AG has presented no evidence countering AIC’s argument that weather-normalized revenues per customer are declining.

With respect to natural gas conservation, AIC believes that truly variable costs (the cost of gas commodity and other associated charges) provide customers a very strong price signal to conserve. AIC notes that the residential class paid approximately 70% of total annual natural gas bills through variable charges in 2014 and approximately 85% of bills through variable charges in January 2014, a peak usage month.

AIC notes that AG witness Rubin’s approach is predicated on the theory that lower use residential customers are currently subsidizing higher use residential customers. He also complains about the inclusion of family farms in the GDS-1 class, but makes no

specific proposal to remove these types of customers from the class. In support of his subsidy argument, Mr. Rubin noted that the installed costs of meters and services required to serve certain higher use residential customers are generally more expensive than those generally required to serve lower use residential customers. Although Mr. Rubin mentions that larger mains and other facilities may also be required to serve higher-use customers, AIC notes that the record has not been developed around this concept. AIC notes that Mr. Rubin recommends GDS-1 rates be set based on the customer costs specifically identified in AIC's cost-of-service studies ("COSS").

AIC argues that the alleged subsidies are *de minimis*. The Company also states, there are two overarching problems with Mr. Rubin's recommendation: it understates actual fixed costs incurred by AIC in serving the GDS-1 class; and it would impose considerable bill impacts on higher use natural gas customers.

With respect to the penetration of higher cost meters, AIC explains that over 99% of residential meters are based on the current standard installation or what was considered standard historically. AIC notes that of the nearly 760,000 meters installed amongst the Residential class, there are only 19 meters of the three largest sizes installed at the residential level. With respect to cost, AIC states, if every residential meter with a current installed cost of \$3,000 or more (485 in total) were removed from the class, the current average installed costs of the remaining meters would be about \$2 less. AIC states that given depreciation, only a fraction of the \$2 difference would directly impact the annual residential revenue requirement, amounting to pennies per month, at most, for the typical customer. AIC explains that this level of larger meter penetration does not produce significant subsidies, and the related analysis shows that the very few "outliers" included in the residential class have little, if any, noticeable rate impact on the average residential customer.

AIC argues that the GDS-1 customer-related costs identified in its cost of service studies, and upon which Mr. Rubin's proposal is based, underrepresent the fixed costs of service for that class. According to AIC, Mr. Rubin focuses on the 54% of customer-related costs specifically identified in AIC's cost of service studies, but fails to recognize additional costs associated with low pressure distribution mains—assets not classified as customer-related in a cost of service study. AIC thus argues that the AG's approach places form over function. It does not differentiate between a ratemaking methodology used to allocate common costs between the various rate classes for the purpose of a cost-of-service study and the pragmatic side of examining the facilities used and in place to serve the customers within a class. AIC explains that, as a practical matter, distribution mains costs represent an additional 27% of the costs incurred to serve residential customers and are fixed, such that individual customers within the GDS-1 class using more or less natural gas from one year to the next will not change the facilities costs incurred by AIC in providing local distribution service to them.

AIC argues that it is necessary to consider and limit undue customer bills impacts, one of the commonly cited goals of ratemaking, and that the step from an 80% to a 70% SFV recovery is reasonably restrained to help avoid undue customer bill impacts. The Company argues that the distribution of residential rate increases are clustered around the class average increase under the 70/30 SFV design, yet are much more dispersed

under Mr. Rubin's 54% customer-related cost only approach. Thus, according to AIC, Mr. Rubin's proposal would inappropriately result in additional customers experiencing more dramatic customer bill impacts. On this point AIC notes that the 70% SFV rate design results in a heating season total bill increase of 5% or 6% for the majority of Residential customers and would almost entirely avoid any heating season total bill impacts of over 10%. Under the AG's COSS based rates approach, the total bill impacts range from 24% decreases to increases of 23% during the winter heating season. AIC notes that under the AG's proposal, approximately 100,000 residential customers would see their total winter bills climb by over 10%.

AIC also argues that the AG's focus in brief on the "inequities" created by the 2008-era rate increases is misplaced and that their conclusions are internally conflicting. AIC notes that said increases occurred almost seven years ago and that customers have been paying rates based on an 80/20 SFV design since that time. AIC believes any departure from that design—to which customers are now presumably accustomed—should be gradual and conscious to avoid undue customer impacts.

b. Staff Position

Staff recommends that the Customer Charge be reduced to recover 70% of the revenues required for both the GDS-1 and GDS-2 customer classes, instead of the current 80% recovery of the revenues proposed by AIC. Staff Ex. 4.0 at 20. This recommendation is consistent with the policies the Commission has articulated for conservation, equitable cost sharing within customer classes, and reflects traditional rate design principles of aligning customers' bills with the COSS, while still protecting customers from rate shock. *Id.* at 20-21. Staff also recommends the Commission accept AIC's proposed Rider VBA, as modified to recover 30% of the revenue requirement rather than the 20% proposed by the Company in Direct Testimony. *Id.* at 24. AIC accepts Staff's proposals. AIC Ex. 23.0 at 5.

AG witness Rubin proposes rates for the GDS-1 customer class based on the COSS, which have the effect of reducing the Customer Charge to collect approximately 54% of the revenues required. *Id.* at 20-21, 20. In support of this proposal, Mr. Rubin argues that larger customers incur additional costs for meters and regulators, and collecting 80% of the revenue requirement through the Customer Charge has the effect of assuming that metering costs, service line costs, as well as other costs that can vary with the gas demands of the customer are essentially the same for all customers. *Id.* at 6, 8.

Mr. Rubin also cites Section 8-104(c) of the Act that requires specific reductions in the use of natural gas on an annual basis, and argues that high Customer Charges undermine this public policy objective by reducing the Distribution Delivery Charge, which is the part of the customer bill that can be reduced through conservation and energy efficiency. *Id.* at 17. Staff agrees with these principles. Staff Ex. 4.0 at 17-18. Staff, however, does not agree that rates for the GDS-1 customer class should be set at COSS-determined rates at this time. Staff recommends the Commission gradually work toward achieving the goal of allocating only the customer component costs determined by the COSS to the Customer Charge. *Id.* at 20.

Staff opines that Mr. Rubin's rate design proposal may have considerable bill impacts for certain customers, and a gradual approach will help alleviate such impacts. *Id.* Customers could see large bill impacts as a result of AIC's rate design proposal, while also facing an increase in their rates due to an overall increase to the revenue requirement. Staff's rate design proposal in comparison to AIC's results in a 19.23% to 22.08% increase for larger-use customers for distribution-only rates. *Id.* at 29. The AG's proposed rate design would result in even greater increases in distribution-only rates for larger-use customers. Staff's rate design proposal accurately balances increases for larger-use customers with an overall increase to the revenue requirement when analyzing bill impacts.

c. AG Position

The AG notes that AIC's customer charge for the residential class is among the highest in the state. Currently, AIC's Rate Zones 1 and 3 residential customers pay \$22.31 before using a single therm of gas. Rate Zone 2 residential customers pay a slightly lower fixed charge -- \$19.97 per month. As a comparison, customers in Northern Illinois Gas Company's ("Nicor's") service territory pay \$13.55 per month - a considerably lower amount. AIC's latest rate design proposal, presented in its Rebuttal Testimony, would set the residential customer charge at \$21.71 per month, based on AIC's acceptance of a Staff proposal to recover 70% of AIC's gas delivery costs for the Residential class through the customer charge.

The AG notes that AIC's current rate design was established by the Commission in 2008 in response to AIC's request at the time for a decoupling rider. The Commission, in Docket Nos. 07-0585 through 07-0590 (Consol.), rejected the rider, but instead implemented an alternative type of revenue decoupling rate design that permits AIC to collect 80% of revenues through the customer charge, compared to then-existing rates that collected approximately 43% of revenues through the customer charge. The remaining 20% of costs are collected through a volume-based per therm charge. Docket Nos. 07-0585 through 07-0590 (Consol.), Order at 215, 236-237. As revealed in AG Cross Exhibits 9-13, the inequities and cross-subsidies that were created by these high customer charges were and remain profound. The Commission considered this rate design a type of test or pilot program, and invited AIC to propose alternatives in its next case. See Docket Nos. 07-0585 through 07-0590 (Consol.), Order at 238.

Much has been learned since 2008 about the inequities of an 80/20 SFV rate design, according to the AG. The AG states that the record evidence in this docket makes clear that AIC's own COSS supports, at a maximum, that 54% of costs are customer-related - not the 70% or 80% that AIC proffers in this case. As such, no more than 54% of revenues should be recovered through the customer charge. The record also shows that low usage customers end up paying a greater percentage of any increase in delivery service charges as compared to higher usage customers, both on average annually and particularly during the winter time, when overall customer usage is highest. See AG Cross Ex. 13. The AG avers that higher customer charges result in less ability for customers to control the size of their bills. Also, higher customer charges reduce customers' ability to engage in cost-effective energy efficiency, because if less of the bill is usage-related, the incentive and payback in energy efficiency investments is reduced.

The AG argues that in order to understand the inequities in the AIC/Staff 70/30 customer charge rate design proposal, it is important to study both the diversity in costs to provide a meter to customers in the residential class, which includes a wide variety of dwelling and meter sizes, as well as the issue of whether costs that vary with demand are appropriately assigned to per therm charges. The AG states that the evidence shows that AIC's proposed rate design collects too much money from low-use customers and fails to collect enough money from larger customers. In addition, the AIC/Staff proposal continues the recovery of costs that vary with demand for natural gas service through the flat, monthly customer charge - a fact that triggers inequitable cross-subsidies.

According to the AG, AIC's GDS-1 class does not have the characteristics one would typically find in a residential class, as it includes agricultural use on family farms. During 2014, GDS-1 customers used an average of 910 therms per year. But there are many customers whose usage is very different from the class average. One percent of customers (approximately 7,000 customers) used 78 therms or less during the year. This level of annual usage is less than an average customer would use during just one month of the winter heating season. At the other extreme, another 7,000 customers used 2,360 therms or more during the year -- usage that is almost 2.5 times the usage of the average customer.

The AG notes that the bottom line is that neither AIC's original 80/20 proposal nor the AIC/Staff 70/30 proposal is consistent with the cost of serving the diverse types of customers that exist within the customer class. The customer charge under the AIC/Staff 70/30 proposal would be \$4.90 per month higher than Mr. Rubin's proposed customer charge that fully recovers all customer-related costs in AIC's ECOSS. AG Ex. 6.0 REV. at 10. The 70/30 rate design perpetuates the inequity of having the Company's lower-usage customers subsidize its larger-use customers by millions of dollars in distribution system payments, and ignores the fact that such a customer charge level would include demand-related costs that should be recovered in usage charges, the AG states.

The three primary cost classifications in the Company's embedded COSS are: (1) commodity or energy costs (costs that vary with the volume of natural gas provided by the utility), (2) demand costs (costs that vary with peak demand required by the customer), and (3) customer costs (costs that vary with the number of customers served by the utility). AIC Ex. 6.0 at 6. It is this second group of costs - demand-related costs - that should be recovered in per therm usage charges, not the fixed customer charge, according to the AG. Customers with higher demand during peak, thereby causing the residential class cost allocation to increase, should bear the responsibility for the increased costs. But when demand costs are recovered through the flat, monthly customer charge, as the AIC/Staff 70/30 rate design proposal does, this important cost causation principle is thwarted.

In several recent rate design decisions, the Commission has soundly rejected the notion that high customer charges are an appropriate means to achieving a utility's recovery of its costs. See, *Commonwealth Edison Co.*, Docket No. 13-0387, Order at 74-75 (December 18, 2013). Commission adoption of the AIC/Staff 70/30 rate design proposal would contradict that trend, according to the AG.

Just as important, the AG asserts, is that such a customer charge level is not needed in order for the Company to recover its costs - the original premise for AIC's SFV rate, according to the AG. Under AIC's uncontested decoupling rider, the Company's residential revenue requirement approved in this proceeding will be guaranteed each year through an annual reconciliation. As described in AIC witness Jones' testimony, under its proposed Rider VBA, the Commission establishes a fixed revenue requirement and AIC then uses a Volume Balancing Adjustment mechanism to compute and apply going-forward volumetric adjustments "to ensure a more consistent opportunity to earn its approved revenue requirement." AIC Ex. 8.0 at 7.

The AG challenges the notion that the decoupling rider should be approved by the Commission based on AIC's claim that its revenues are declining and specifically that its "weather-normalized revenues per customer" are declining. See AIC Ex. 8.0 at 9. But data regarding alleged declines in weather-adjusted per-customer revenue collection say nothing about what is happening with overall residential class revenues and gas usage in the real world, the AG states. In fact, AIC's revenues for the residential class are growing, as is gas usage of that class.

Given the Illinois Supreme Court's recent affirmation of the lawfulness of decoupling riders, the AG is not challenging AIC's request for a decoupling rider in this docket. What the AG does object to, however, is approval of the proposed Rider VBA and the perpetuation of the inordinately high and inequitable customer charges that the AIC/Staff proposal ensures. The Commission has specifically recognized that a Rider VBA decoupling mechanism and high fixed charges are redundant ways to address the issue of revenue stability.

In addition, the AG points out, AIC enjoys unquestionable revenue stability as a result of other rider mechanisms that guarantee revenue streams between rate cases. For example, AIC recovers a return of and on new incremental infrastructure investment through its Rider QIP. Also, the Company receives a steady stream of revenues through its uncollectibles rider, Rider GUA, and direct recovery of its energy efficiency program costs through Rider Gas Energy Efficiency Cost Recovery Adjustment ("Rider GER"), among other riders. With Commission approval of AIC's decoupling rider, the Company's ability to recover its Commission-approved revenue requirement is guaranteed. Coupled with its ability to file rate cases at any time under Section 9-201 of the Act, the AG asserts that AIC's financial risk is virtually non-existent.

According to the AG, other policy implications must be considered by the Commission as it examines the customer charge issue in this case. Specifically, the Illinois General Assembly, in its passage of Section 8-104 of the Act, made clear its interest in reducing the amount of natural gas delivered to utility customers and reducing the cost of utility bills that customers pay. To that end, Section 8-104(c) requires specific reductions in the use of natural gas on an annual basis. As noted by AG witness Rubin, high fixed charges undermine this public policy objective by reducing the amount of the customer bill that can be reduced through conservation and energy efficiency. AG Ex. 3.0 at 18.

The AG points out, too, that adoption of the AIC/Staff 70/30 proposal makes that effort more difficult, relative to the AG-recommended 54/46 rate design. This is because

less usage therms are available to be reduced and the cost effectiveness of those efficiency measures is automatically, negatively impacted in the Total Resource Cost test calculation, which is the lynchpin of evaluation of these ratepayer-funded measures. See 220 ILCS 5/8-104(b). When fewer therms can be reduced through efficiency measures, fewer dollars are saved, thereby directly impacting the cost-effectiveness calculation of various efficiency measures, the utilities' decision to offer certain measures and customers' willingness to engage in efficiency. This fact, too, should guide the Commission's analysis of the rate design in this case.

Both Staff witness Allen and AIC witness Althoff, advocating for a 70/30 SFV rate design, advise against Commission approval of Mr. Rubin's rate design. Staff witness Allen, for example, alleges that higher use customers will have much higher bills compared to lower use customers, and that such action can result in rate shock for higher use customers. Staff Ex. 4.0 at 20. But the Commission must analyze this claim based on record evidence (which the AG states is severely lacking in support of Staff's concern about rate shock for large users) and within the context of the larger issue of ensuring that rates are equitable, based on cost causation and consistent with other Commission orders.

In sum, Mr. Rubin's COSS-based, 54/46 rate design: (1) corrects the inequities created when the experimental 80/20 rate design experiment was first established in 2008; (2) reflects the Company's customer-related costs based on the Company's own ECOSS; and (3) is consistent with stated Commission precedent and Illinois policy goals promoting energy efficiency. The AG argues that it should be adopted by the Commission.

d. CUB Position

CUB supports the AG's recommended rate design, which would collect the customer-related cost of service using AIC's COSS. This results in a customer charge that collects 54% of GDS-1 revenues through the customer charge. CUB supports this rate design because it ensures that customers receive the correct price signals when using gas and allows them to retain more control over their natural gas bills. For these reasons and those stated in CUB's and the AG's Initial Briefs, CUB recommends the Commission adopt AG Rubin's proposal to collect 54% of GDS-1 revenues through the customer charge.

e. Commission Analysis and Conclusion

At issue here is what percentage of AIC's revenues should be collected through fixed customer charges for residential and small non-residential customers. Currently, AIC recovers 80% of its revenue through its fixed customer charges and 20% through a volume-based per therm charge. Staff proposes, and AIC agrees, to recover 70% of revenues through fixed charges. AG witness Rubin proposes that AIC recover even less revenue through fixed charges – 54%.

Collecting a high percentage of revenue through fixed charges helps to insure that the Company recovers its approved revenue requirement, regardless of the amount of gas sold. This issue is complicated by AIC's uncontested proposal to apply its Rider VBA to its per therm charges. Rider VBA also serves to insure, through an annual reconciliation,

that the revenue collected from customers through per therm charges matches the revenue approved by the Commission in this proceeding. Similar to fixed charges, Rider VBA decouples the revenue collected from the amount of gas sold. The key difference is that, on an individual basis, customers are able to lower the portion of their bill subject to Rider VBA by reducing their gas usage. The Commission agrees with the AG's general premise that it is inappropriate to pair a revenue decoupling mechanism such as Rider VBA, with high fixed customer charges, because both address the issue of revenue stability.

The Commission also finds that, because high fixed customer charges remove the price signal from increased gas usage, the appropriate direction for this rate design split to move is for less costs to be recovered through fixed rates. The record indicates that lowering the customer charge would also move rates toward cost based rates, which the Commission generally supports. Nevertheless, the Commission finds the impact on large customer bills under the AG's proposal to be problematic, especially when coupled with the revenue increase approved herein. Thus, the Commission agrees with Staff's proposal to reduce to 70% the percentage of revenues collected through fixed charges and it is adopted.

VIII. RIDER AND TARIFF CHANGES

A. Resolved Issues

1. Rider VBA

Staff recommends that the Commission approve Rider VBA if it adopts Staff's recommended SFV target percentages, a proposal with which the Company agrees. Staff Ex. 4.0 at 23; Ameren Ex. 23.0 at 5. The AIC/Staff agreement to collect 70% of revenues through fixed customer charges is approved above. Staff also proposes several revisions to the rider: (1) modifying the date by which the annual internal audit is submitted to the Commission's Manager of Accounting, and (2) addition of an email address for the Manager of Accounting to be used in submitting the internal audit report. Staff Ex. 2.0 at 12. The Company accepts these proposed modifications. The AG notes that given the Illinois Supreme Court's recent affirmation of the lawfulness of decoupling riders, the AG is not challenging AIC's request for a decoupling rider in this docket. No party objects to Ameren's proposal to implement a decoupling rider, Rider VBA. The Commission finds that the proposed Rider VBA is reasonable and is hereby approved.

2. Uncollectibles – Rider GUA

A component known as the Delivery Service Uncollectible Recovered in Base Rates is shown in each delivery service rate for informational purposes, considered a subset of the Customer Charge, and used by AIC to track the amount of uncollectible expense included in rates for administration of Rider GUA. AIC included its proposal for determining the amount of Delivery Service Uncollectible Recovered in Base Rates amount in its direct filing. Staff witness Ebrey did not dispute AIC's position in her Direct Testimony, but recommended that AIC file an information sheet under Rider GUA setting forth the rates determined in the rate case compliance filing so the component in question will be readily ascertainable for future reconciliations. Ms. Ebrey also recommended that

AIC provide workpapers to the Manager of Accounting supporting the derivation of the uncollectible rates. AIC states that it does not oppose providing workpapers supporting the calculation of the uncollectibles values, but it asserts that Staff's proposed informational filing is already provided and available within each GDS rate tariff. Ms. Ebrey withdraws her recommendation regarding the informational filing based on AIC's response. No party contests this issue, and AIC indicates the matter is resolved. The Commission finds the resolution of this issue reasonable and appropriate.

3. Uncollectibles – Rider S

In Docket No. 13-0192, the Commission directed AIC to consolidate the uncollectible factors into a single AIC value instead of differentiating them by rate zone. However, the Commission directed AIC to continue to differentiate the uncollectible factors by rate class. AIC included its proposed uncollectible factors for Rider S – Systems Gas Service in AIC witness Althoff's Direct Testimony. Staff witness Ebrey recommended in her Direct Testimony that the Commission approve Staff's calculation for the uncollectible factor for Rider S based on the three-year average of net write-offs, consistent with the methodology she utilized for the base rate uncollectible factor. AIC agrees with Ms. Ebrey's recommendation regarding base rate uncollectibles, specifically that the methodology used in the calculation should align with the methodology used to determine the uncollectibles factor in Rider S, as well as the corresponding factors presented in Ms. Ebrey's Direct Testimony. The Commission finds the proposed Rider S is reasonable and is hereby approved.

B. Contested Issues

1. Implementation of Small Volume Transportation Program

a. AIC Position

AIC asserts that in Docket No. 11-0282, the Commission ordered AIC and interested stakeholders to participate in small volume transportation ("SVT") workshops hosted by Staff to determine "whether an SVT [program] is appropriate for the AIC service territories," and to address a variety of SVT-related issues. Docket No. 11-0282, Order at 194. The Company explains that following a series of workshops, AIC presented its proposed SVT program in Docket No. 13-0192. However, the parties were not able to resolve all of the technical issues in that docket, and the Commission ordered them to work through the remaining items in a separate proceeding, Docket No. 14-0097. AIC notes that during the course of Docket No. 14-0097, it informed the Commission of increased cost estimates associated with the program and sought direction on whether to continue implementation.

AIC observes that on July 8, 2015, in Docket No. 14-0097, the Commission stated, "[i]n this instance, we do not believe the proposed SVT Program as proposed by [AIC] Illinois is reasonable. The Commission is concerned with the substantial projected costs of the SVT Program as currently proposed and finds that it is not in the public interest to approve the continuation of the SVT Program at this time." *Ameren Ill. Co.*, Docket No. 14-0097, Order at 32 (Jul. 8, 2015). It further ordered AIC and interested stakeholders to participate in workshops hosted by Staff to determine "how and when residential gas

customers in its service territory will have access to a gas supplier choice program.” *Id.* at 32-33.

AIC states that the Company is currently taking steps to comply with the Commission’s Order in Docket No. 14-0097. The Company notes that workshops are underway and, as required by the Order, AIC will work with Staff to report to the Commission. Thus, AIC believes there are no SVT-related issues that are ripe or appropriate for determination in this docket given the Commission’s Order in Docket No. 14-0097.

The Company takes issue with ICEA/RESA’s assertion that AIC has not demonstrated that the costs it has incurred in connection with the SVT Program are prudent and necessary. AIC explains that the Phase 1 SVT costs were approved by the Commission in Docket No. 13-0192 and are currently being collected in AIC’s base rates. AIC asserts that the Commission, in that proceeding, determined that the costs were appropriate to be included in rates and recovered from customers. AIC states that additional costs associated with the SVT Program, including costs associated with what AIC has styled as Phase 2 of the project, were not included in Docket No. 13-0192 and AIC has not sought recovery of those costs in this case. AIC states that given the ongoing Program design discussions, it is uncertain what, if any, additional costs will be incurred. AIC further asserts that no party challenged the prudence of SVT-related costs in either Docket No. 13-0192 or this docket. AIC continues that given the lack of such a challenge, there is no need for the Commission to issue a finding on this topic. AIC argues that such a finding cannot, in any event, be used as an independent basis to support a party’s legal right to challenge any costs in the future, as any review of SVT costs in future cases would be based on the facts and circumstances of those cases. AIC concludes that in addition, a “negative” finding such as the one recommended by ICEA/RESA is not necessary as a practical matter. AIC maintains that the Commission has not done this in the past and it should not do so in this docket.

b. ICEA/RESA Position

ICEA/RESA witness Joseph Clark requested in his Direct Testimony that the Commission direct AIC to complete implementation of the SVT Program being considered in Docket No. 14-0097 within nine months from the Commission’s Order in that proceeding. ICEA/RESA point out that the Commission subsequently entered its Order in Docket No. 14-0097 and concluded that AIC should “stop implementation of the current SVT Program, with costs incurred to date to be reviewed in the proper forum”. Docket No. 14-0097, Order at 32. Given the Commission’s Order in Docket No. 14-0097, Staff, AIC, and ICEA/RESA agree that ICEA/RESA’s original request is moot. However, ICEA/RESA argue that AIC has not demonstrated that any costs it has incurred in connection with an SVT Program are either prudent or necessary for an SVT program and request that the Commission make clear in its Order in the instant gas rate increase proceeding, that it is not making any determination regarding the prudence of any costs related to an AIC SVT Program.

c. Staff Position

Staff notes that in Docket No. 14-0097 the Commission ordered AIC to halt SVT implementation and hold workshops with all stakeholders in an attempt to fashion a cost-effective SVT program. Docket No. 14-0097, Order at 32. Staff states that based on this recent decision it concurs with AIC that ICEA/RESA's request that the Commission order AIC to implement an SVT program is moot and that the Commission need not make any decisions on this topic in this docket.

d. Commission Analysis and Conclusion

The Commission notes that ICEA/RESA originally requested that the Commission direct AIC to complete implementation of the SVT program being considered in Docket No. 14-0097 within nine months from the Commission's Order in that proceeding. ICEA/RESA, AIC, and Staff all agree that in light of the Commission's recent decision in Docket No. 14-0097 that AIC should stop implementation of the SVT program, ICEA/RESA's original request is moot. The parties have indicated that they are participating in workshops as required by the Commission's Order in Docket No. 14-0097 and AIC has stated that it will work with Staff to report to the Commission on the progress of these workshops. The Commission also notes that AIC has made it clear that it has not sought recovery of any costs related to the SVT program in this docket.

Accordingly, the Commission agrees with AIC and Staff that there is no need for the Commission to make any decisions regarding any SVT-related issues, including the prudence of costs related to the SVT program, at this time.

2. Enrollment Rescission for Rider T Customers

a. AIC Position

AIC asserts that in 2013 it changed its tariffs to implement uniform rescission practices for all non-residential gas choice customers. As a result, all non-residential customers currently have ten days to cancel a pending switch of supplier within the Company's billing system (with the understanding that damages may still be due under the terms of the supply contract). AIC argues that ICEA/RESA and Staff have failed to prove why their request that AIC's tariffs be amended to withdraw the ten-business day rescission window for Rider T customers using more than 5,000 therms is warranted. The Company maintains that their proposal presents a solution in search of a problem, and that their "solution" is impractical given the applicable statutory framework and it will ultimately lead to customer confusion.

AIC requests that the Commission reject ICEA/RESA's and Staff's arguments and permit AIC to retain its current non-residential rescission practices. AIC states that the current practices align the Company's gas and electric operations, remove statutory ambiguity and customer confusion in the administration of non-uniform practices, and have not been shown to translate into higher market prices or a dampening of the competitive gas marketplace.

The Company explains that there are two different types of rescissions that may be available to natural gas customers: (1) supply rescissions, which cancel both an underlying supply contract and the switch of supplying source in the utility's billing system

and (2) enrollment rescissions, which cancel only the switch within the utility's billing system, but not the underlying contract. AIC argues that its tariffs currently provide for an enrollment (but not contract) rescission. AIC states that enrollment rescission only prevents the Company from switching a customer to a different supply source within the Company's billing system; it does not cancel or invalidate the terms of the underlying supply contract between a customer and supplier. The Company argues that it is the difference between "blocking another switch and cancelling an underlying contract." AIC maintains that ICEA/RESA and Staff associate risk and increased costs with the enforcement of any contractual or liquidated damages provisions governing these circumstances (i.e., resulting from a customer's decision to rescind), but the Company notes that they readily admit that whether a rescission of an enrollment triggers the rescission of a supply contract is a function of the terms of the supply contract and it has no control, direct or indirect, over the contract between the supplier and customer. AIC notes that these contracts may presumably contain language addressing the concerns expressed by ICEA/RESA and Staff.

AIC claims that the change recommended by ICEA/RESA and Staff would create different practices for customers within the same class leaving many non-residential customers with little to no remedy to correct or address a mistaken switch. AIC also claims that while the 5,000 annual therm threshold is clear, the process by which a non-residential customer would meet that threshold is not. Thus, it is "virtually impossible" for AIC to determine whether a non-residential account is eligible for supply and enrollment rescission until after the account has been switched to a new supply source. As a result, AIC asserts, non-uniform practices will require a substantial amount of manual intervention to make retroactive corrections which Staff conceded may ultimately result in customer confusion. AIC notes that it is true that Section 19-115 (g)(7) of the Act only requires the ten-day rescission period for small commercial customers. However, AIC points out that Staff conceded that the Company may lawfully offer protections to customers over and above those mandated by statute.

According to AIC, ICEA/RESA's suggestion that the Company "simply add language to the [switch] letter it sends to customers informing them of their enrollment and rescission options indicating the rescission period only applies to a customer with annual usage of 5,000 therms or less" will not work in this situation. ComEd employs a similar practice for its electric operations, however, AIC argues this "solution" is not appropriate as applied to gas operations. AIC argues that electric utilities have a very clear usage cut off established by Illinois law and they therefore can more clearly articulate rescission capabilities to electric customers. However, since the process for identifying small commercial customers is unclear, the best guidance that gas utilities like AIC could provide would be that a customer "might" be eligible for a rescission, depending on its ownership structure and annual usage at other locations. AIC contends that ICEA/RESA's suggestion therefore is likely to contribute to customer confusion.

AIC contends that ICEA/RESA's and Staff's argument that larger non-residential customers may be able to "game" the system by rescinding an enrollment to take advantage of lower prices, thus stranding suppliers with "bought forward" gas, leading to increased market risk and increased market prices is baseless. AIC asserts that this

argument is not based on observable fact, supported by quantitative analysis, or founded upon market-based evidence. On the contrary, AIC argues, it is internally conflicting, and subject to a countervailing hypothesis. AIC also questions whether their underlying hypothesis is even correct (i.e., that the mere existence of the rescission capability may drive prices up). The Company submits that rescission in and of itself creates downward pressure on prices by reducing suppliers' risk.

Finally, AIC maintains that ICEA/RESA's argument that mistaken, errant and unauthorized enrollments can always be reversed, even beyond AIC's ten-day period pursuant to Section 2DDD of the Consumer Fraud and Deceptive Business Practices Act ("Consumer Fraud Act") and Section 19-115(c) of the Act is erroneous. AIC argues that these provisions only apply to residential and small commercial customers. Thus, they may leave larger transportation customers without an ability to rescind in some situations. Further, AIC contends that, even assuming the Consumer Fraud Act creates additional rights for some customers in some circumstances, those circumstances are likely limited, and would not protect all customers in all situations.

For these reasons, AIC urges the Commission to reject ICEA/RESA's and Staff's recommendation that the Company amend its tariffs to withdraw the ten-day rescission period for Rider T customers using more than 5,000 therms annually.

b. ICEA/RESA Position

ICEA/RESA recommend that AIC's ten-day rescission period for Rider T customers be limited to small commercial customers (i.e. customers with usage of 5,000 therms or less annually). ICEA/RESA note that these are the non-residential customers for whom a ten-day rescission period is required by Section 19-115 (g)(7) of the Act.

ICEA/RESA contend that a rescission period for larger transportation customers creates problems for gas suppliers and their customers and is unnecessary. If the customer has ten days to rescind, that subjects the supplier to market volatility risk for the gas the customer ultimately may end up not buying. Given this circumstance, suppliers would have to factor this risk in their pricing to the detriment of their customers. Moreover, ICEA/RESA assert that there is no reason a commercial customer with usage greater than 5,000 therms annually would need a rescission period. These customers actively negotiate their supply contracts and are market savvy. The purpose of the rescission period is to provide smaller customers with less experience in the commodities market with an opportunity to contemplate the contract and possibly change their mind. ICEA/RESA point out that neither Nicor nor Peoples Gas has a ten-day rescission period for large customers.

ICEA/RESA agree with Staff witness Rearden that the right to an enrollment rescission without a sales rescission creates an increased risk for suppliers, because they could lock in their gas purchases and the customer could subsequently exercise its right to rescind the switch. ICEA/RESA argue that as Mr. Rearden stated, suppliers are likely to raise bids to customers to compensate for that risk. At the same time, depending on termination provisions in the contract, customers could be liable for payments to the supplier and pay higher costs. Thus, ICEA/RESA maintain that while the sales contract would govern rescission effects, it is unlikely that the ten-day rescission period will make

gas markets more efficient for non-small commercial customers. Further, the rescission period also has the potential to unnecessarily raise gas prices.

ICEA/RESA also agree with Mr. Rearden's assertion that enrollment rescission, the only remedy currently available to Rider T customers, does not offer the same level of protection as supply rescission. Moreover, ICEA/RESA note that the Illinois General Assembly only mandated a ten-day rescission window for small commercial customers. Thus, ICEA/RESA argue that the legislature declined to protect commercial customers using more than 5,000 therms with the ability to rescind a supply contract.

ICEA/RESA also challenge AIC's argument that the purpose of the rescission period is to provide a uniform period of time for customers to correct a mistaken, errant or unauthorized switch on their account. First, AIC's rescission period goes far beyond allowing time to correct a "mistaken, errant, or unauthorized" switch of a customer. In fact, AIC's rescission period allows a customer to rescind its enrollment for any reason whatsoever. Second, a customer whose switch was unauthorized can always reverse the switch since any switch which does not comply with the requirements of Section 2DDD of the Consumer Fraud Act and Section 19-115 (c) of the Act is invalid and does not bind the customer.

ICEA/RESA contend that AIC's argument that an enrollment rescission is different from a supply rescission and does not directly involve any underlying supply contract is also unpersuasive. ICEA/RESA assert that this is a difference without a distinction because the rescission of the enrollment leaves the supplier with no opportunity to provide the customer with gas under the underlying supply contract.

Accordingly, ICEA/RESA conclude that the Commission should direct AIC to revise its rescission period in Rider T to eliminate its applicability to Rider T customers who are not small commercial customers.

c. Staff Position

Like ICEA/RESA, Staff recommends that AIC change its tariffs back to its previous practice, currently followed by Nicor, Peoples Gas and North Shore Gas, of allowing rescission for only those transportation customers using less than 5,000 therms.

Staff urges the Commission to reject AIC's arguments in support of its current uniform rescission period for all transportation customers, regardless of size. Staff states that AIC justifies its current tariffs by arguing that the current provision reduces confusion. Staff agrees that it may not always be entirely easy to determine whether some customers are small (i.e., usage less than 5,000 therms per year). However, Staff believes confusion is also created by AIC's careful distinction between enrollment rescission and supply rescission. As defined by the Company, enrollment rescission, available under Rider T to all customers, simply cancels the switch to a Rider T supplier. According to the Company a supply rescission, on the other hand, cancels the switch as well as the supply contract. Staff asserts that if a given customer's status as a small commercial customer is unclear, then whether a rescission pursuant to Section 19-115(g)(7) of the Act is available to that customer is also unclear. A customer's decision about whether or not to rescind may depend on what it perceives to be its status. Staff maintains that by AIC's own argument, having two types of rescission may create confusion for its customers.

Staff does not disagree with AIC's observation that, while Section 19-115 does not mandate rescission periods for non-small commercial customers, the Commission nevertheless has the power to allow them. Staff argues that this does not change the fact that customers are not generally treated the same unless the customers have similar characteristics. For example, different classes of customers have different rates of return and are charged different rates.

Staff agrees with ICEA/RESA that the ten-day rescission window for customers with usage greater than 5,000 therms could raise retail gas prices. Staff notes that AIC counters that possibility by noting that the argument is theoretical and not empirical. AIC argues that the rescission period may actually lower gas prices by increasing customers' assurance that they can cancel contracts within ten days. In other words, AIC suggests that an increase in the demand for a good, in this case retail gas supply, implies a decrease in its price. This is incongruous with standard demand and supply theory that suggests an increase in demand will result in an increase in price. Staff contends that retail gas prices could rise in response to the risk that longer-term contracts with a ten-day rescission window impose on suppliers. Staff argues this conclusion is based on sound theory, and AIC has not successfully countered it.

Finally, Staff notes that AIC argues that the increased risk that the ten-day rescission window imposes on Rider T suppliers is entirely theoretical. AIC points out that neither ICEA/RESA nor Staff identify a result where a non-small commercial customer rescinded a contract and imposed losses on a supplier. Staff states that this is irrelevant because suppliers must remain cognizant of this risk as they plan their offers.

For these reasons, Staff recommends that AIC's tariffs be amended to withdraw the ten-day rescission period for Rider T customers using more than 5,000 therms.

d. Commission Analysis and Conclusion

The Commission observes that Rider T provides an optional transportation service to non-residential customers that elect to procure gas supply from alternative gas suppliers and have AIC deliver the customer-owned gas. Ill. C. C. No. 2, 3rd Revised Sheet No. 25, (Canceling 2nd Revised Sheet No. 25). The Act requires a ten-day rescission period for transportation customers that use 5,000 or fewer therms annually. 220 ILCS 5/19-105, 220 ILCS 5/19-115(a), 220 ILCS 5/19-115(g)(7). In the fall of 2013, AIC changed its tariffs to extend this ten-day rescission period to all Rider T customers. At issue in this proceeding is whether this rescission period should be limited to only small commercial customers (i.e. customers with usage of 5,000 therms or less annually).

ICEA/RESA are concerned that AIC's Rider T rescission practices increase the risk of significant losses for suppliers if the market gas prices fall after they have signed a contract with a Rider T customer and locked in gas purchases for the customer. Staff agrees with this concern and posits that this risk is likely to result in higher prices for all transportation customers. AIC, however, is concerned that removing the ten-day rescission period for those small customers that are close to the 5,000 annual therm threshold will be impractical given the applicable statutory framework and lead to customer confusion. It is clear that AIC's primary concerns are related to those customers

in the smallest non-residential rate class, GDS-2, which contains customers above and below the 5,000 annual therm threshold.

The Commission shares the concerns expressed by ICEA/RESA and Staff but it also sees the validity of AIC's concerns. The Commission notes that transportation customers are not homogenous. Some are very small and relatively unsophisticated customers that need the protection provided by the enrollment rescission period and some are large customers with greater sophistication and the ability to "game" the system. Therefore, the Commission finds that the best solution to address the parties' concerns is to require AIC to amend its tariffs to withdraw the ten-day rescission period for Rider T customers, except those that receive gas in the smallest non-residential rate class, GDS-2, as well as any small seasonal customers in the GDS-5 class that are eligible for the GDS-2 rate. This will address ICEA/RESA's and Staff's concerns while taking into account AIC's concerns about implementing the requested change in its Rider T rescission practices given the challenges of identifying whether customers are close to the 5,000 annual therm threshold.

3. Combined Billing Practices for Electric and Gas Customers

a. AIC Position

AIC asserts that it is a combination utility and provides both electric and gas utility service. The Company explains that most of its customers are combination customers, receiving both electric and gas service under one account and the Company issues one bill each month to these customers. This bill is referred to as a "combination" or "combined bill." According to the Company, its practice of sending one bill to combination customers reflects its commitment to efficient and cost-effective billing processes. AIC states that ICEA/RESA's concerns regarding the effects of the Company's combined billing practices are unfounded and, if accepted, would undo strides in billing efficiency made by the Company over the last several years.

AIC states that ICEA/RESA's arguments are flawed. ICEA/RESA assert that the Company's previous practice was to send separate bills containing its delivery service charges to a customer's electric and natural gas suppliers if both suppliers had invoked the Single Bill Option ("SBO"), and that the Company changed that practice in the fall of 2014. The Company maintains that this is not true. Both electric and gas suppliers are still able to include the Company's delivery service charges on their bills, and this is not a new practice for AIC.

AIC observes that ICEA/RESA took issue with the Company's elimination of the "splitting" of accounts required under AIC's former natural gas transportation billing system. AIC argues that this splitting process is a complicated, 75-step process which was required for each combination customer who opted to receive gas supply from a third party, as well as for any customer who opted for third party gas supply and who had multiple gas meters associated with their account. AIC points out that AIC witness Millburg described the history behind the necessity to split the customer's bills and explained that the billing enhancement that eliminated the "splitting" requirement was implemented for both new and existing customers on December 14, 2013.

AIC asserts that ICEA/RESA's recommendation to return to the split billing process would deny the Company the ability to provide its combined customers with one cohesive, combined bill, and that this would substantially eliminate the efficiencies and customer benefits gained from the initiative. The Company argues that returning to and maintaining that billing process would consume a significant amount of AIC personnel time, involves numerous manual processes, is resource intensive and has been shown to frustrate consumers. Additionally, AIC states that ICEA/RESA have not demonstrated that consumers wish to return to what the Company calls a less efficient process of receiving multiple bills from their utility provider and they have failed to identify a funding source for the incremental costs associated with their recommendation. The Company argues that there is not sufficient evidence in this proceeding to support the unreasonable action requested by ICEA/RESA and that the Commission should reject their recommendation.

AIC argues that ICEA/RESA's arguments about protection of supplier confidential or competitive information should be rejected. According to AIC, the suppliers, not customers, select the billing option used to present the suppliers' charges to customers. Thus, the supplier has sole control over whether its electric supply charges will be included on the Company's bill for delivery service. Moreover, the Company states that it does not include any gas supplier pricing information on the Company's delivery service bills, and that it is audacious for ICEA/RESA to ask this Commission to solve a perceived problem that is much more easily addressed by suppliers themselves. It is AIC's position that suppliers at their sole discretion can eliminate any potential disclosure of competitive pricing information on bills issued by the Company, and because of this, the ICEA/RESA recommendation related to combined customer billing should be rejected.

b. ICEA/RESA Position

ICEA/RESA state that previously, if an AIC customer were buying gas supply from a gas supplier and electric supply from an electric supplier and both of those suppliers were billing the customer using SBO, AIC would send the bill for its gas utility charges to the gas supplier and the bill for its electric utility charges to the electric supplier. The gas supplier would then send the customer a single bill, including AIC's charges and its own charges. Similarly, the electric supplier would send the customer a single bill, including AIC's charges and its own charges. ICEA/RESA Ex. 1.0 at 9. In other words, each supplier would use the SBO.

However, according to ICEA/RESA, AIC changed this practice and will only send its gas and electric utility charges to one of the suppliers, the supplier designated by the customer as the Billing Agent. ICEA/RESA assert that this results in a customer only being able to choose its gas supplier or electric supplier for a combined bill, but not two separate consolidated bills for the separate commodities. *Id.*

ICEA/RESA object to this change in AIC's billing practice. ICEA/RESA maintain that AIC's combined billing practice can effectively prohibit the customer from making the choice it would likely prefer, namely to select both its preferred gas offer and its preferred electric offer. The ultimate result of AIC's practice is to reduce the options of transportation customers in the market and to disclose competitive and proprietary information among competitive suppliers.

ICEA/RESA assert that Staff agrees with their position that AIC's arguments in support of retaining its combined billing practice are not responsive to ICEA/RESA's concern regarding its change in billing practice. Staff points out that ICEA/RESA are objecting to AIC's policy that a customer cannot choose to use SBO for both gas and electric service and receive one bill for its gas supply and distribution charges and one bill for its electric supply and distribution charges. AIC, however, discusses how it determines which entity is the customer's billing agent, which then provides a bill for both services. ICEA/RESA note that Staff concludes that as long as the cost is not excessive, if customers want a separate bill for gas and electric service from each supplier, then it should be able to receive two separate bills. ICEA/RESA further note that there is no evidence in the record that the cost of reverting to AIC's former billing practice would be "excessive", despite AIC's opportunity to submit such evidence responding to Staff's position in Surrebuttal Testimony.

In conclusion, ICEA/RESA argue that the Commission should direct AIC to revert to its former practice of providing separate bills to electric and gas suppliers. The electric supplier will receive AIC's bill for electric delivery services and the gas supplier will receive AIC's bill for gas delivery services.

c. Staff Position

Staff believes AIC and ICEA/RESA do not appear to be addressing the same issue. Staff highlights that in its Initial Brief AIC is almost entirely concerned with Utility Consolidated Billing, in which it bills for its delivery charges along with the suppliers' commodity charges. It also extensively discusses "bill-splitting." Staff notes that ICEA/RESA, on the other hand, raised the billing issue in their testimony and they are wholly focused on the SBO. SBO allows the supplier to include AIC's delivery charges in the bill that the supplier sends to the customer.

Staff further notes that ICEA/RESA complain that AIC changed its practices by only permitting one SBO provider for both electric and gas customers, rather than allowing each supplier to send a separate bill. AIC denies it changed its procedures in the way asserted by ICEA/RESA. Additionally, ICEA/RESA claim that a SBO for both gas and electric service can leave one supplier vulnerable to revealing its pricing information.

Staff argues that ICEA/RESA do not, however, allege a specific violation of tariffs or Commission rules, and they fail to provide suggested tariff language to remedy the problem they have with AIC's billing practices. Staff Ex. 13.0 at 7. Staff opines that customers should be able to choose who provides their bill. As long as the cost is not excessive, Staff asserts that if customers want a separate bill for gas and electric service from each supplier, then customers should be able to receive two separate bills. Staff Ex. 13.0 at 8.

d. Commission Analysis and Conclusion

The Commission declines to adopt at this time ICEA/RESA's proposal that AIC should be required to revert back to its former practice of providing separate bills to electric and gas suppliers.

The Commission understands that ICEA/RESA's proposal is based upon the concern that AIC's current practice of only permitting one SBO provider will result in the transfer of proprietary pricing information from a supplier to a competitor. The Commission notes that the record is clear that AIC does not provide any third party supply charges to a supplier performing SBO, and ICEA/RESA admit this to be the case. ICEA/RESA Ex. 2.0 at 9. However, the record appears to also support ICEA/RESA's claim that a supplier would have to provide its pricing information directly to a competitor in order to provide a customer with the convenience of a single bill. ICEA/RESA Group Ex. 4.0 at 7; RESA Data Request 3.06(d). Unfortunately, the record is devoid of any analysis of the costs of reverting back to AIC's old billing process. Furthermore, the Commission believes there may be options other than AIC's old process of "splitting" accounts that have not been considered in this proceeding.

Accordingly, the Commission directs Staff to initiate a series of workshops within 120 days from the service of this Order to consider this issue so that a more developed record can be presented in AIC's next gas rate case. The participants in the workshop should consider different ways to modify AIC's billing system to address ICEA/RESA's concerns, including reverting back to AIC's old process, and identify the costs associated with each option in an effort to reach consensus on a solution. AIC shall present any agreed upon solution in its next gas rate case and if the parties are unable to reach a consensus, the parties may present their respective solutions as they deem appropriate.

4. Meter Reading and Billing Practices for Rider T Customers

a. AIC Position

It is the Company's position that ICEA/RESA's concerns regarding AIC's meter and billing practices for Rider T customers are unfounded. AIC maintains that ICEA/RESA's complaints ignore both the impact of supplier-generated balancing groups and the effects on billing of different meter data gathering processes. AIC asserts that ICEA/RESA provided no evidence to support their assertions and AIC disputes the accuracy of the assertions. The Company also notes that Staff agrees with AIC that ICEA/RESA have not provided any evidence indicating a violation of a law or a tariff.

AIC explains that group balancing is available under the Company's Rider G-Group Balancing transportation Service tariff, and allows suppliers, at their sole discretion, to aggregate or pool customers with similar balancing timeframes served off the same interstate pipeline into one entity for supply/balancing purposes. AIC states the Company implemented a change in December 2013 to remove the previous limit on the number of customers allowed within a balancing group, and to allow suppliers to add and drop customers within the group at their discretion.

AIC further explains that a supplier's decision to participate in the group balancing service and determine the number of customers in each group can affect the ability of the Company to gather actual usage data and issue associated bills in a timely manner. AIC elaborates that normally, bills are issued to customers when their meter is read, and the usage data and various supply-related data are fed into the Company's billing system. However, if the customer is included by their supplier in a group balancing pool, the bill is only issued when the last meter in the pool is read. AIC represents that the collections of

usage data is based on numerous factors, many of which are beyond the control of the Company, this process can extend well beyond the fifth business day target for issuing bills. AIC states that the Company could issue group bills by a date certain every month. The bills would be based on both actual and estimated readings to meet the deadline, and they would need to be reissued when the actual readings for the previously-estimated meter reads are secured which would not be efficient.

AIC maintains that ICEA/RESA's assertion that the billing delays experienced with AIC customer accounts are not experienced at other utilities in Illinois and Wisconsin should be given little weight. ICEA/RESA Ex. 1.0 at 13. AIC disputes the basis for the cross-company comparisons, and explains that one would have to research the underlying meter reading and billing practices at those utilities to develop a consistent basis for comparison, which does not appear to have been done in this instance.

AIC challenges ICEA/RESA's complaints concerning billing delays based on daily and monthly balanced customers. AIC asserts that as demonstrated in AIC Exhibit 45.1, bills for daily balanced Rider T customers are almost always issued by the fifth business day of the month. AIC explains that the reason for the difference in performance between daily balanced customers and monthly balanced customers is the use of telemetry, a fact which is not addressed by ICEA/RESA. AIC further explains that daily balanced customers are required to have telemetry equipment which links their meters with the Company's billing system. This equipment virtually eliminates potential issues that could prevent timely meter reads. Additionally, AIC is allowed to require telemetry equipment only for its daily-balanced customers, and it uses price signals associated with the cost of meter reading to incentivize large customers to install and maintain that equipment. AIC points out that the monthly balanced customers do not have the same equipment requirements and, for the most part, must have their meter read manually. AIC asserts that without requiring the installation of telemetry equipment, the Company will continue to constantly review its metering and billing practices and make significant investments in its meter system to mitigate the ability of external, uncontrollable factors to delay its meter reading and billing.

AIC asserts that ICEA/RESA's request that the Company provide suppliers with a standard notice, other than the invoice itself, for usage revisions and that the information be provided to a designated contact at the suppliers should be disregarded. AIC argues that the Company already provides suppliers with this service, and provides additional access to meter data for daily balanced customers even before it is used for billing purposes. AIC asserts these items are addressed in the Company's Retail Gas Suppliers' Handbook and any gas supplier serving AIC customers, including members of ICEA/RESA, must attest that they have read and understand this document. Moreover, AIC asserts that suppliers and not the Company should be held responsible for ensuring that the usage data flows to the correct personnel within the supplier's company after their systems receive that information. AIC notes that ICEA/RESA agreed, but lamented that the problem lies in the format it received. AIC claims that ICEA/RESA, however, failed to address the fact that suppliers for natural gas often have electric supplier counterparts and that AIC has not received complaints about similar practices on the electric side.

AIC also avers that suppliers appear to be obtaining the usage information from the Company's web portal and using that information for determining revised usage. This means that they are relying on information reports instead of the source data sent in an Electronic Data Interexchange transaction which is billing quality data and intended to be used for billing purposes. AIC states that suppliers could reduce their confusion and frustration by following the processes identified both in the handbook provided to them and available on the Company webpages devoted to supplier support.

AIC states that it concurs with Staff that ICEA/RESA have failed to provide supporting evidence to show any violations that need to be addressed. Accordingly, AIC concludes that the Commission should reject ICEA/RESA's concerns related to AIC's meter reading and billing practices.

b. ICEA/RESA Position

ICEA/RESA assert that there has been a deterioration in AIC's meter reading and billing for Rider T customers. In the past, final information was available by the 8th day of the month, currently, final information is not available until the 15th business day of the month or later for natural gas pooling customers, creating a significant lag in a supplier's billing process. ICEA/RESA state that suppliers are unable to bill customers in a timely fashion and unable to close their books due to the delay. According to ICEA/RESA, AIC's experience is in contrast to nearly all utilities in Illinois and Wisconsin which are completely billed sometime between the fifth and the eighth business day of the month and, most of the time, much earlier. In addition, ICEA/RESA have shown that usage revisions at AIC are not handled timely, given notice of, or handled uniformly.

ICEA/RESA disagree with AIC's position that delays in final billing data relate to group balancing and that the number of customers some suppliers are putting into balancing groups is affecting timing of final meter reads. ICEA/RESA argue that contrary to AIC's assertion, their members have experienced delays even for balancing groups with small groups of customers.

ICEA/RESA claim that AIC's own evidence is contrary to its witness' claim that AIC aims to have its bills for transportation customers issued to suppliers by the fifth business day of the month and that it typically achieves that goal for all transportation accounts including group balanced accounts. To underscore their point, ICEA/RESA note that AIC's Exhibit 45.1 demonstrates that for the period of January through June 2015, on average only 68% of monthly balanced customers were issued by the fifth business day.

ICEA/RESA also complain that AIC's current notice method is deficient and must be changed because it does not provide a way to readily identify "normal" usage. They assert that contrary to AIC's claims, problems related to difficulty in identifying "normal" usage from "revised" usage are not attributable to suppliers' failure to read AIC's handbook.

Finally, ICEA/RESA take issue with Staff's assertion that it is not clear what relief ICEA/RESA are requesting and that this issue does not appear to be ripe for a ruling from the Commission. ICEA/RESA argue that the relief they request is both within the scope of AIC's gas rate case and clearly stated. First, they request that the Commission establish a firm date on final usage--the fifth business day of the month. Second, they

request that the Commission direct AIC to provide a standard notice, other than the invoice itself, for usage revisions. Third, they request that any time there is a volume changed to a closed invoice (volume or dollars), AIC should be required by the Commission to notify a designated contact at the supplier.

c. Staff Position

Staff observes that ICEA/RESA complain that AIC is not providing bills to suppliers in a timely fashion. ICEA/RESA request that the Commission establish the fifth business day of the month as the firm date on final usage, and that the Commission order AIC to provide a standard notice, other than the invoice itself, for usage revisions. Staff asserts that it is unclear how widespread the problem is, and there has been no allegation that AIC has violated its tariffs, its contracts with suppliers, Commission rules or Illinois law. Accordingly, Staff maintains that ICEA/RESA have not sufficiently supported the need for Commission action.

d. Commission Analysis and Conclusion

ICEA/RESA complain that there has been a deterioration in AIC's meter reading and billing for Rider T customers. To address this issue, ICEA/RESA recommend that the Commission (1) establish the fifth business day of the month as the firm date on final usage; (2) direct AIC to provide a standard notice, other than the invoice itself, for usage revisions; and (3) require AIC to notify a designated contact at the supplier any time there is a volume changed to a closed invoice (volume or dollars).

The Commission agrees with AIC and Staff that there is not enough evidence in the record to support any changes to AIC's meter reading and billing practices for Rider T customers at this time. Notably, it is unclear how prevalent the problems are and ICEA/RESA fail to adequately address the impact of supplier-generated balancing groups and the effects on billing of different meter data gathering processes.

Although the Commission declines to adopt ICEA/RESA's recommended changes, the Commission believes it would be beneficial if the parties continued to discuss this issue in the workshop ordered in Section VIII.B.3 above. Accordingly, the participants in the workshop should also consider how prevalent the alleged issues are and how AIC and the suppliers can work together to enhance AIC's meter reading and billing practices. AIC shall present any agreed upon solution in its next gas rate case and if the parties are unable to reach a consensus, the parties may present their respective solutions as they deem appropriate.

IX. OTHER ISSUES

A. Resolved Issues

1. General Service Agreement Allocators

CUB/IIEC witness Gorman proposed to reduce AIC's operations and maintenance expense by \$24.1 million, the amount by which Mr. Gorman calculated AMS charges to AIC's gas operations to have increased between 2013 and 2016. AIC witness Grant explained that the \$24.1 million also included electric expense, and that the gas amount was \$8 million. Pursuant to the Stipulation, CUB/IIEC agree to withdraw Mr. Gorman's

proposed adjustment to operations and maintenance expense. In addition, the parties to the Stipulation agree to recommend that the Commission initiate a workshop process to identify the AMS costs allocated to AIC's gas and electric operations, with the expectation that AIC will file a revised General Services Agreement for the Commission's approval at the conclusion of the workshop. The AG is the only party to this proceeding that is not a party to the Stipulation, and the AG does not dispute the amount of AMS charges, or the Stipulation Parties' recommendation that a workshop be initiated. As such, the Commission finds the recommendation that it initiate a workshop reasonable, and hereby directs the parties to engage in a workshop process to identify the AMS costs allocated to AIC's gas and electric operations, and for AIC to file a revised General Services Agreement for approval at the conclusion of the workshop pursuant to the Stipulation.

B. Contested Issues

1. Forecasted FERC Account Data

a. AIC Position

AIC notes that AG witness Coppola recommends that the Commission order AIC to take additional steps and present additional schedules pertaining to the Company's recording and reporting of costs by Federal Energy Regulatory Commission ("FERC") account. According to AIC, however, no additional steps are required nor are additional rate case schedules needed.

Mr. Coppola claims that AIC is experiencing a large volume and frequency of costs misapplied to FERC Accounts. But, according to the Company, the 20 instances cited by Mr. Coppola do not represent a large volume or frequency, given that AIC processes approximately 2.5 million general ledger transactions annually, and the instances are largely explainable. Even if each of Mr. Coppola's 20 examples were associated with 1,000 transactional rows of charges, they would still constitute less than 1% of the Company's annual total transactions.

Moreover, according to AIC, the process of forecasting expenses will be improved for AIC's next future test year rate case, by using cost data budgeted by FERC account. AIC explains that although it currently does not budget O&M expenses by FERC account, budgeting by FERC account will be implemented in 2016. Budgeting O&M expenses by FERC account will help improve the consistency in reporting, AIC states, by giving the Company the ability to identify budgeted expense changes at the FERC account level relative to prior years' expenses. AIC states that it will also have the ability throughout the year to analyze budget to actual variances at the FERC account level to provide another level of control. In addition, AIC notes that the change will increase the knowledge and understanding of the FERC accounts in the field personnel, who are responsible for the budgeting and recording of expenses in their respective operating area.

AIC requests that the Commission reject the AG's proposal to require the Company take additional steps and prepare additional schedules pertaining to the recording and presentation of its cost data by FERC account.

b. AG Position

The AG states that in reviewing the testimony filed by Company witness Colyer on various O&M expense items and certain responses to data requests, AG witness Coppola found at least 20 occurrences where the Company had changed the FERC account to which it recorded a certain expense from one year to the next. AG Ex. 2.0 REV. at 37. The AG states that in some cases, the change in FERC accounts booked occurred in multiple successive years for the same item. The AG also states that similarly, with regard to some forecasted cost items, the forecasted costs were included in certain FERC accounts but the actual expense in prior years had been recorded in other FERC accounts. *Id.*

The AG asserts that the problem with the large volume and frequency of costs misapplied to FERC accounts is that it makes the task of cost analysis much harder. *Id.* The AG avers that good analysis can only be performed with financial information that is consistently accounted for year over year so that underlying trends and unusual cost variances can be identified, explained and corrective action taken. The AG asserts that the Company has shifted the burden of dealing with misapplied charges to Staff and intervenors, who are forced to analyze financial information to determine why the Company's forecasted test year numbers vary from historical levels. The AG submits that it is critical in order to establish fair and reasonable rates that cost data be presented and analyzed in a consistent manner. AG Ex. 5.0 at 19. The AG urges the Commission to order the Company to file a report within six months detailing how these processes have been improved. The AG claims that more importantly, this frequent practice of recording costs to different FERC accounts from one year to the next raises the question of whether there are weaknesses in the Company internal cost controls.

The AG argues that the Company is not adhering to the Commission's directive in Docket No. 13-0192 to improve its accounting systems to make its forecast documentation more transparent and understandable. In that docket, the Commission stated that it "also agrees with Staff that based on the testimony by Mr. Brosch, it is evident that the Company's forecast documentation, while not deficient from a standard filing requirement standpoint, was not as complete, detailed or easy to comprehend as it could have or should have been." Docket No. 13-0192, Order at 34.

The AG states that given these FERC account recording errors, Mr. Coppola recommends that the Commission instruct the Company to take additional steps to avoid the recording of costs, whether actual or forecasted, to the wrong FERC accounts from year to year. Mr. Coppola further recommends that when these changes occur the Company needs to present additional schedules in support of testimony or responses to data requests that present the explanation of variances on a pro-forma basis over the years being compared so that there is a uniform presentation.

The AG believes that, given the Commission's prior order and the persistent problem, the Company should be ordered to ensure that processes are corrected to create consistent and comparable accounting, which will help ensure that the Commission is setting just and reasonable rates, and that the limited time and resources of both the Commission Staff and Intervenor is not wasted.

c. Commission Analysis and Conclusion

The Commission finds that the record does not support the AG's request that AIC prepare additional schedules and take additional steps concerning the recording and presentation of cost data by FERC account in future gas rate proceedings. The Commission looks favorably on the Company's intent to take steps in improving the consistency of its reported expenses by transitioning to budgeting by FERC account during 2016. Given these facts, the Commission believes that the AG's request should be rejected.

Notably, for the Commission, Commission Staff does not share in the AG's complaint. The Commission expects that, if Staff experienced the issues complained of by Mr. Coppola that Staff would have brought them forward. The AG's request is denied.

X. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) Ameren Illinois Company d/b/a Ameren Illinois is an Illinois corporation engaged in the transmission, distribution, and sale of gas to the public in Illinois and is a public utility as defined in Section 3-105 of the Public Utilities Act;
- (2) the Commission has jurisdiction over the parties and the subject matter herein;
- (3) the recitals of fact and conclusions of law reached in the prefatory portion of this Order are supported by the evidence of record and are hereby adopted as findings of fact and conclusions of law; the Appendices attached hereto provide supporting calculations;
- (4) the test year in this proceeding is a future test year consisting of the 12 months ending December 31, 2016; such test year is appropriate for purposes of this proceeding;
- (5) the Commission, based on Ameren Illinois Company d/b/a Ameren Illinois' gas Rate Zone I original cost of plant in service as of December 31, 2013, before adjustments, of \$451,217,000, and reflecting the Commission's determination adjusting that figure, approves \$448,080,000 as the original cost of plant for Ameren Illinois Company d/b/a Ameren Illinois' gas Rate Zone I as of said date;
- (6) the Commission, based on Ameren Illinois Company d/b/a Ameren Illinois' gas Rate Zone II original cost of plant in service as of December 31, 2013, before adjustments, of \$628,131,000, and reflecting the Commission's determination adjusting that figure, approves \$623,745,000 as the original cost of plant for Ameren Illinois Company d/b/a Ameren Illinois' gas Rate Zone II as of said date;

- (7) the Commission, based on Ameren Illinois Company d/b/a Ameren Illinois' gas Rate Zone III original cost of plant in service as of December 31, 2013, before adjustments, of \$1,108,946,000, and reflecting the Commission's determination adjusting that figure, approves \$1,101,146,000 as the original cost of plant for Ameren Illinois Company d/b/a Ameren Illinois' gas Rate Zone III as of said date;
- (8) AIC's gas delivery service rates which are presently in effect are insufficient to generate the operating income necessary to permit it the opportunity to earn a fair and reasonable return on net original cost rate base; the proposed tariffs should be permanently canceled and annulled;
- (9) the rates proposed by AIC would produce a rate of return in excess of a return that is fair and reasonable; the proposed rates should be permanently canceled and annulled consistent with the findings herein;
- (10) AIC should be authorized to place into effect tariff sheets designed to produce annual gas delivery service revenues as shown in Appendices A, B and C; the new tariff sheets shall reflect an effective date not less than five working days after the date of filing, with the tariff sheets to be corrected within that time period if necessary, except as is otherwise required by Section 9-201(b) of the Act; and
- (11) the determinations regarding cost of service, interclass revenue allocations, rate design, and tariff terms and conditions, as are contained in the prefatory portion of this Order above, are reasonable for purposes of this proceeding and are adopted, and shall be incorporated into the tariffs filed by AIC.

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the tariff sheets presently in effect for gas delivery service rendered by Ameren Illinois Company d/b/a Ameren Illinois are hereby permanently canceled and annulled effective at such time as the new gas delivery service tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that the proposed tariffs seeking a general increase in gas delivery service rates, filed by Ameren Illinois Company d/b/a Ameren Illinois on January 23, 2015, are permanently canceled and annulled.

IT IS FURTHER ORDERED that Ameren Illinois Company d/b/a Ameren Illinois is authorized to file new tariff sheets with supporting workpapers in accordance with Findings (8) through (11) of this Order, applicable to gas delivery service furnished on and after the effective date of said tariff sheets.

IT IS FURTHER ORDERED that all motions, petitions and objections which have not been disposed of are hereby deemed to be disposed of in a manner consistent with the conclusions herein.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

DATED:	11/3/2015
BRIEFS ON EXCEPTIONS DUE:	11/13/2015
REPLY BRIEFS ON EXCEPTIONS DUE:	11/19/2015

Leslie Haynes
Sonya Teague Kingsley
Administrative Law Judges